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PURCHASING



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# PURCHASING

BY

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FORMER SECRETARY-TREASURER THE FOUNDATION COMPANY

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## PREFACE

Realization of the importance of the art of purchasing, coupled with an almost total lack of literature on the subject, has been the incentive to prepare this text. Books without end have appeared for the benefit of the producer and his salesman. The current publications are not slow to record the latest methods employed in the operating and sales departments. But how about the man who buys and who pays for the goods? Is it not of importance to the purchaser to classify and study the principles which govern his work? Would it not be a benefit to one buyer to know what methods a fellow buyer pursues?

The one great difficulty in the preparation of this book has been in deciding its limitations. Purchasing is a broad subject, and there has been a temptation to include many features which were simply out of the question within one volume of reasonable size. The result has been the omission of many topics, or in some cases a compromise in the direction of brevity, where a more extended treatment would have been preferable. For example, advertising, accounting, credits and traffic could profitably have been treated from the purchaser's viewpoint. Likewise, the care, management and replenishment of the stock room is sometimes actually delegated to the purchasing agent. The author frankly admits that the omission or superficial discussion of these subjects is regrettable, but when it is remembered that the adequate handling of any one of them would have required a large portion of the entire volume, the reader will appreciate the limitations.

Another difficulty has been in the choice of examples. It is not expected that all will apply with the same force to every reader. The illustrations that would best suit a railroad purchasing agent will not appeal strongly to the buyer for a retail store. However, if the principles are made plain, the examples used to explain them may be forgotten after they have served their purpose.

Particular attention is called to the chapter on some of the legal aspects of purchasing. For this chapter the author is indebted to Mr. William W. Taylor. Purchasing agents usually

have had no legal training though they are being constantly called on to prepare contracts. It is believed that a clear understanding of a few of the fundamental legal principles may be obtained from this chapter and that it will be found one of the most practical in the book.

The author wishes also to make acknowledgment to Mr. W. Richmond Smith, who, under the direction of Hon. William A. Prendergast, Comptroller, prepared a report in which is outlined a proposed system for the centralized purchase and storage of supplies for the City of New York. While this report was intended solely for a municipal corporation, so much valuable information of a general character is contained in it, that it has been, to a large extent, incorporated in this book. The author expresses his appreciation for Mr. Smith's permission to do this.

The author extends thanks, also, to the Alexander Hamilton Institute for permission granted to quote from one of its textbooks, prepared by Professor Ralph Starr Butler, University of Wisconsin.

The A. W. Shaw Company has included in its "Business Man's Library" one very excellent volume on the subject of purchasing, and the author extends his thanks for permission to quote a few passages from this work.

C. S. RINDSFOOS.

NEW YORK CITY,  
May, 1915.

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# PURCHASING

## CHAPTER I

### HOW TO OBTAIN THE RIGHT ARTICLE

**1. Importance of securing the right article.**—The most important object in making any purchase is to obtain the right article, that is to say, that article which is best suited to meet the buyer's requirements. No one would be commended for buying a cargo of buckwheat coal for boilers designed to burn nothing smaller than pea, no matter how low the price nor how favorable the terms. Little praise is due the man who bought snow plows for the Panama Railroad regardless of the conditions of the contract. This seems self-evident, and yet ninety-nine purchasing agents out of ninety-nine work on the theory that price is the most important consideration.

Price is important, but unless the article bought is that which will perform the duty required, whatever is paid is wasted. Or again, if the article required is one which must serve for five years, it is a waste of money to buy one which will last only one year, unless the five-year article specified will cost more than five times as much. It is understood, of course, that sufficient money is in hand to get the higher class article. The cost of replacements and the loss entailed by reason of a shutdown during repairs must also be considered. Obviously a prime requisite in making a good purchase—in getting the right article—is a knowledge of the use to which it is intended to put that article.

**2. Knowledge of the intended use of article.**—One of the greatest weaknesses in most purchasing agents is unfamiliarity with the details of the business for which they purchase. Professor Butler says: "In addition to the policies and resources of the house he represents, the buyer must know thoroughly the manufacturing processes through which the raw material passes. The buyer deals with many salesmen. Each one handles probably but a single article or line and in that one field he is an expert.

The salesman knows absolutely the exact place and advantages of his article or line in the manufacturing process of the house to which he is trying to sell. He is, therefore, at an advantage over the buyer, unless the latter also has a complete knowledge of how the product of his house is manufactured." The more intimate this knowledge is, the less likelihood there is of not getting the right article. Witness the experience of one of the large railroad systems whose purchasing agent bought a number of locomotives which were too long for their turntables. It proved cheaper to resell the locomotives to another railroad, at a sacrifice, than to rebuild all of the turntables.

Such a mistake seems inexcusable, but similar ones occur every day, and they recur. The purchaser no sooner goes into the market for an article than he finds a legion of products which differ but slightly the one from the other. Without a knowledge of the ultimate use for which they are intended, it is impossible to be sure what detail may make any given object unsuitable.

One is about to buy roofing for a building. What are the weather conditions? Are there fumes which will preclude the use of iron? Will the nature of the building warrant tile? If so, are the surrounding conditions such as to render tile liable to breakage? Would asbestos be satisfactory?

Reinforcing steel is requisitioned. Will the conditions permit the use of re-rolled? Is it desirable to have soft, mild steel that will stand bending, or would high carbon steel, harder to bend but capable of standing greater stress, be preferable?

A motor is to be purchased. Shall it be enclosed as a protection against moisture or shall it be of the open type? Shall it have a pulley extension? Would the induction type, without brushes, be of advantage? Is the amount of required floor space a consideration? No matter what the nature of the purchase may be, a host of questions arise that can be answered only by a knowledge of the use to which it is intended to put the article.

It is not possible that the purchaser can always have this close knowledge at first hand. Where the business is small, it is possible. Where purchasing is done for a large corporation, whose needs may embrace every conceivable object, the detailed information must be put in the hands of the purchasing agent in such explicit form that he can proceed with certainty from a paper standpoint. The method of conveying this information on paper is indicated in Sec. 96, Chapter X, Figs. A, B, C and E.

**3. Knowledge of the article to be purchased.**—Next in importance to the knowledge of the use to which it is intended to put the article is a knowledge of the article itself. To take an extreme case, a man who is thoroughly versed in the subject of electric motors is in a better position to buy motors than the man whose knowledge is confined to dress goods, and *vice versa*. If the specifications called for a 100-h.p. motor, 440 volts, 60 cycles, the experienced buyer of electrical machinery would at once note that his information was incomplete; that he should know the phase, the type, whether open or enclosed, vertical or horizontal, etc. This would be Greek to the man experienced only in dress goods. If the latter made no more serious blunder, he would at least waste a lot of valuable time in self-education while trying to get prices. The salesman would ask many questions which the purchasing agent could not answer. On obtaining this information for the salesman, he would be asked an entirely new set of unintelligible questions by the next salesman, and after playing battledoor and shuttlecock between his engineering department and the trade, he would hardly be in a commanding position in the transaction.

There is another advantage in knowing the material which one is trying to buy. Both catalogues and salesmen convey a great deal of information which is pertinent and a great deal more that is unimportant. How much importance would a man, whose sole previous duties had been the buying of hats, place on the density of chemical earthenware, or its percentage of iron, where the material was to be used in an electrochemical plant? How much importance would a man, whose entire experience had been confined to the buying of earthenware, place on style if called on to buy headgear? To sift important fact from unimportant talk is a task much lightened by experience and knowledge.

It is a realization of the importance of an intimate knowledge of goods, their manufacture, character and uses, that has led many manufacturing establishments to institute schools of apprenticeship for their salesmen.

<sup>1</sup>“When salesmen are being constantly trained for efficiency, we hear little or nothing about training the buyer to resist the blandishments of the finely trained salesman. What the ‘natural born’ buyer would do under fire of the ‘scientific’ salesman making an approach psychologically perfect, will probably be determined in the future.”

<sup>1</sup>A. W. Shaw Company.



The salesman who has been "through the shop" and, for example, used a lathe; who has served in his own factory and helped to build lathes; who, in short, knows every nut and bolt and special feature of the lathe he is trying to sell, has a far greater chance to talk his customer into an order, than one whose knowledge is superficial. Conversely, the man who is in the market for such a tool can select that one which best fits his needs if he is similarly posted. Lacking such information, he is either misled by the salesman, or at least he cannot feel absolutely sure that he has purchased the machine best adapted to his wants.

As stated in respect to the desirability of knowing the ultimate use of a purchased article, so with respect to a knowledge of the article itself, it cannot be expected that the purchaser will know all at first-hand. He should be supplied with sufficient data by those who are in a position to know, at the time he is given a requisition to buy. He should further endeavor to acquaint himself with the various makes which are offered, talking to those who have used them, comparing the specifications of each, and by examination, where possible, of the actual articles which are under consideration.

Having in mind the use of any article as well as a knowledge of the article itself, the next important thing to know is the logical source of supply.

**4. Knowledge of the source of supply.**—The source of supply may be very large, as in the case of cement, or it may be very small, as in the case of aluminium. In either case there are sound reasons for dealing only with the logical producer. Where there are a great many producers, it will invariably be found that a few will be experienced in supplying the exact article wanted, and it is usually best not to waste time with the others.

For example, there are many manufacturers of glass tubes. If large tubes are wanted, the best results can be obtained from a comparatively few, though even those makers experienced only in small tubes would be likely to undertake to fill the order. In some cases the source of supply is small. If a clear purple slate free from iron or streaks is wanted, it would be unwise to invite bids from Pennsylvania producers where the output is not of that character. It seems simple enough that one should not employ a house carpenter for cabinet work nor a dock builder to build a house, and yet essentially the same thing happens

when one goes outside of the logical market in purchasing. This is usually due to a lack of knowledge of the source of supply.

<sup>1</sup>“Outside of trust controlled products, the supplying houses are in a state of continual and relentless competition. The buyer, knowing what supplies he needs, must know just as thoroughly the houses handling his needed line. Then, too, the advantages of not only the local houses over one another, but the houses in other cities; their facilities for delivery; their ability to make their promises good; their reputation for financial responsibility and a thousand questions must be weighed and considered before an order of any size is given.”

For the inexperienced or unposted, there exist many sources of information. The trade papers are of assistance, and their advertising columns should be consulted. Of course, all advertisements cannot be taken at par, but, in general, the rule exists that the higher the nature of the publication, the more reliable will be the statements which it publishes. In fact, many publications refuse to print extravagant or unwarranted statements submitted by their advertisers. Classified business directories will usually be available for the large cities, and they will occasionally be of assistance. Registers which are reliable, such as Hendricks' or Thomas', can be consulted in obtaining complete lists of the producers of certain articles, while such publications as Moody's or Bradstreet's will help to determine the names of the officers, and the financial standing of sellers. There are companies such as Proudfoot's or Dun's which will give special reports, if such are deemed necessary. Organizations, such as the manufacturers' associations, boards of trade, chambers of commerce, etc., are always willing, not only to help their members, but to give information to those who would have dealings with them. In each trade will usually be found some source of information which is quite reliable for that particular line. For example, there exists for the use of the architect, "Building Data League, Inc.," which is conducted on a high plane to furnish information regarding the best source of supply of any article required in the building trade.

Undoubtedly the most used and the readiest way of obtaining such information is by inquiry through allied lines. For example, a seller or manufacturer of paving brick would gladly give information as to the best source of supply for face brick, and a man in the paving brick industry would probably be well posted on the trade in general.

<sup>1</sup> A. W. Shaw Company.

Some authorities take the position that the knowledge of the source of supply is the only gage by which to measure a man's ability as a purchaser. This is an exaggerated view, but without question such knowledge is a very important qualification, and one that only large experience can develop.

Some artificial conditions may exist by reason of which the logical producer cannot afford to offer the greatest attraction to the buyer. A combination working to the detriment of the consumer may be in existence among the principal producers. A temporary depression in one line of trade may create a situation where the purchaser can do best outside the logical field. A strike may be impending which would tie up the logical producers. But, generally speaking, the experienced purchaser sticks to the logical market. The inexperienced purchaser should above all be assured that this is by far the safer policy to pursue if he be intent on getting the right article.

**5. Knowledge of manufacturing processes.**—Another factor to be considered in obtaining the right article is the manufacturing process. With knowledge of this subject, the purchasing agent can classify the manufacturers into two groups with reference to any particular purchase—those who are equipped to handle the matter and those who are not. For example, certain forgings can be best made by hand and certain other forgings can be made to better advantage by machine. The conclusion is obvious. Again, certain products are known as standards and others as special. Often the standard is as good for the purpose as the special. For example, large aluminium bus bars are made "commercial," that is, with edges rolled, and "special," with the edges sawed. Usually the commercial bar is the right article, though without this knowledge, the special might be specified at a greater cost in time and money.

Whenever the quotations seem to be higher than they should, the sellers should be asked what there is unusual in the specifications. These inquiries will often elicit the information that certain details have been specified in a way so costly as to raise the total cost unduly. Knowledge of the processes of manufacture will suggest to the buyer modifications which will allow the seller to reduce his price to their mutual benefit. Lacking such knowledge, the buyer should not hesitate to ask for suggestions by the seller to the end that he may adopt standard practice wherever possible.



Knowledge of manufacturing processes does not apply simply to the processes used in producing the goods needed by the purchaser. He should know his own manufacturing processes as well. This was implied in the discussion on the value of knowing the intended use of an article. The value of a knowledge of manufacture, whether it be the process utilized by the buyer or the seller, can be stated concisely as consisting in the ability to substitute standard labor or standard material for special.

**6. Inspection during manufacture.**—In many instances inspection during manufacture is desirable in order to obtain the right article. Where a specialist is not available from the regular staff, one can be procured from concerns who make this their business. It is impossible to make a definite assertion stating when to inspect and when inspection would be unnecessary. This will depend on the amount of money involved and the seriousness that would attach to inferior material or workmanship. Various customs will be found to exist, however. For example, it is quite universal to inspect lumber, steel and cement; machinery is sometimes inspected during manufacture; most articles are not inspected until delivery. It will not be hard to decide when an inspection is advisable, but the difficulty lies in so placing an order that should the inspector discover faulty material or workmanship, the cost of replacement will clearly be chargeable to the manufacturer: A further difficulty will be to secure an inspector who is conscientious, practical and yet the possessor of common sense.

**7. Catalogues.**—Every well-ordered purchasing department maintains a catalogue file. These catalogues are a great aid in determining who can produce the right article. Such a file is easy to obtain and easy to keep. All sellers are glad to furnish catalogues free to all who are even remotely interested. The matter they contain will afford almost a liberal education to the reader.

That catalogue ratings are high is universally known, though the modern tendency is toward the truth, and the specific statistics which they contain are usually reliable. The general statements contained in them are to be discounted. Catalogues, like people's clothing reflect the owners. Those most simple and conservative are quite likely to be most dependable.

**8. Catalogue filing.**—Even the smallest purchasing department will soon accumulate so many catalogues that they become a problem, unless properly filed and indexed. They look unsightly

and when a certain one is most needed, it cannot be readily found. A number of filing systems have been developed, but the one which is most generally useful will be explained.

Sectional bookcases should be secured. They are preferable to stationary or built-in shelves, since the catalogue file is a changing, growing library. Solid shelves may fit the library of to-day, but be of totally wrong size and shape to-morrow. The sectional bookcases can be obtained in sizes and shapes that will conform to all kinds of catalogues. They can be arranged and readily re-arranged, added to or extended, as the library changes. Some effort has been made to standardize the size and shape of catalogues, but the movement, while a good one, is too much a thing of the future to be considered in deciding on the kind of furniture to employ. Standard sectional bookcases can be purchased from about 70 cts. per section up to several dollars per section and in a variety of woods, or of steel.

On the feature of housing catalogues, there can be no two opinions. It will be found best to group by size and shape only, disregarding their contents. Where catalogues are filed by subjects or manufacturers' names, an unattractive appearance results. Small catalogues or pamphlets do not appear well when next to large ones. Furthermore, many catalogues illustrate a multitude of products so that it is almost a physical impossibility to keep together all the catalogues of one class. Again, accessions are being made constantly and it would be a burden to be continually re-arranging all to suit the new ones. If catalogues are filed with regard to appearance only and are supplemented with a proper cross-index, no confusion will result. It must not be thought that this method is urged because of appearance only, but it so happens that this is also the most practical and convenient way.

It is best to place the largest sections of the bookcase and the largest catalogues in the bottom, the sizes gradually decreasing toward the top. Otherwise, the cases would look as if they were on the verge of toppling over. Each tier of cases should be given a letter plainly indicated, and each catalogue should be given a number and a letter to correspond with the tier on which it belongs, and corresponding with its location on that tier. Thus a catalogue marked 30-C would belong on the third tier and would be the thirtieth book from the end.

Very small leaflets which will not stand alone should be filed

in small pasteboard boxes or letter files. In this case, the number the leaflet bears will refer to the box, rather than to itself. Thus pamphlet 5-B means it belongs in box 5 on tier or shelf B. These boxes should all be filed on the same tier or tiers for the sake of appearance. If desired, a list of the pamphlets within the box can be pasted on its edge.

All catalogues should be cross-indexed, one index being by dealers' or manufacturer's names and the other arranged according to the names of their products. Good examples of such cards are shown in the last chapter. Thus, if John Smith makes boilers, stacks, grate bars and gas holders, all of these products would be listed on one card under Smith's name, together with the number and letter of Smith's catalogue and filed in one index under "S." At the same time, his name would be placed on one card in the other file under boilers, on another under stacks, etc.

It is well to have the cards in these two indexes of different colors. Thus, one file could be blue and the other white. No mistake would then be made in replacing a card in the wrong card-index file.

Some purchasing departments attempt to combine the card index for catalogues with their price index. This should not be done. The catalogue file is a separate institution from the price file and attempts to combine them or to put too much information on the card defeats the very object sought, namely, simplicity and easy reference. The catalogue cabinet should hold catalogues only, and the catalogue card index should be designed only to enable us to lay our hands on any one of them.

Catalogues and advertising media of all kinds accumulate with remarkable rapidity. They usually find their way to the purchasing agent's desk. Many are worthless and should be thrown away. Others are valuable and should be filed. All should be scanned at least. It has been the writer's habit to have a large basket in which such literature is placed, rather than on the desk. Each evening he takes a few of these and glances through them on the way home or on the way to the office next day. Many are discarded but a good idea is thus obtained of those worth while. Each morning he places those catalogues in the filing basket which he has looked at and desires to keep. On the fly leaf he indicates the headings under which they should be indexed. In this way, the catalogue file is kept free of undesirable literature while none that is good is lost. Also, nothing



goes into the permanent file without some study and without intelligent listing on the index.

**9. Samples and analysis.**—Many lines are susceptible of purchase by sample. The method affords a good comparison between articles from different sellers, and in many cases the samples can be tested to make absolutely sure which brand best fulfils the requirements of the purchaser. Furthermore, the sample can be compared with the material finally delivered to ascertain whether or not the order has been filled exactly as per sample. Then again, the sample may be filed for reference and comparison when placing future orders, if it is decided to make standard the brand in question. Many purchasing departments maintain a sample file as a valuable supplement to the catalogue file.

Where the chemical composition of an article is of great importance, it may be advisable to attach the analysis of the material to the sample, and this analysis should be incorporated in each order. The material delivered on subsequent orders can be tested from time to time and the analysis checked with that which is on file, to see that the seller has not degraded his brand since the sample was submitted. If the material proves to be of inferior quality, it may be rejected or else due deduction may be made in the payment of the invoice.

It is impossible to compare many articles by brands, unless a sample or chemical analysis is submitted with the bid. Oil, rubber, asbestos and the like vary from the cheapest to the most expensive. Bids on such articles mean nothing unless their composition is known. Any seller can quote on any quality and can therefore name any price which he thinks will take the order. Consequently he should be advised either regarding the quality wanted or the duty which the article is to perform.

Some articles are not susceptible of purchase by sample, but can be bought on what is for practical purposes a similar basis. A case in point would be a hoisting engine. No one would expect a sample hoisting engine, but in such a case the same result could be secured by ordering "as per hoisting engine approved by our inspector," or "identical with hoisting engine, shop number (-)," following this description with the main data, such as diameter of cylinders, stroke of cylinders, diameter of drums, number and size of boiler tubes, etc.

Some articles may be purchased on the basis of quality, with a bonus where the quality exceeds that specified and a penalty

where it falls below the specification. This method tends to secure the best material which the seller can supply. At the same time, if occasional lots of inferior material are delivered, the seller not only avoids the expense of its removal, but the buyer is also protected in that he pays only what it is worth. Coal is often purchased under this system. Inasmuch as coal is bought for the production of heat, the greater the number of heat units, the greater is the price paid by the purchaser. Since it is an expense to remove ashes, the greater the percentage of ash, the less the price paid. In special cases, other qualities such as percentage of moisture, percentage of volatile matter, etc., are taken into consideration.

The United States Bureau of Mines, Bulletin No. 41 states as follows:

"Under the old plan of purchasing coal, when the consumer had cause or thought he had cause to find fault with the quality of the fuel he received, he was assured that it must be good because, like all the other coal sent him, it came from a mine with an established reputation. Such a state of affairs made it difficult to take advantage of the competition which usually results from a considerable number of bidders being asked to submit prices. The purchaser was afraid to buy from any dealers but those he knew and trusted, because, although each dealer claimed that his coal was equal in quality to that of the others, yet if it did not prove to be satisfactory there was no standard of settlement.

"Many thousands of dollars worth of coal is still bought each year in this manner, yet a buyer or investor should consider it absurd to make a contract for a building with no specification other than that it should be of a certain size and well constructed. Neither would he buy gold, silver, nor even copper or iron ores on the mere information that they were mined at certain localities. This is true of coal in only a small degree, but the number of coal contracts made on such a basis (per heat unit) is increasing every year."

The tendency to buy at so much per unit of quality, instead of per unit of quantity is one that will increase. The idea is fundamentally sound. Already lumber and oil are bought on that basis. It has been proposed for cement. Other commodities will follow. Concerns have been, and are being formed which make tests and act in a judicial capacity with relation to contracts made on this basis. The advisability of using this method will depend usually on the amount of money involved,

that is, to say, it will be found practicable where the possible saving is worth taking into account.

**10. Summary.**—We thus see that the first consideration in making any purchase is to obtain the *right* article; that article best calculated to perform the duty which will be required of it. By analysis we see that there are seven principal sources of assistance to attain this object. These are as follows: 1. Knowledge of the intended use of the article. 2. Knowledge of the article itself. 3. Knowledge of the source of supply. 4. Knowledge of manufacturing processes. 5. Inspection during manufacture. 6. Catalogues and other publications. 7. Samples and analysis.



## CHAPTER II

### HOW TO OBTAIN THE LOWEST PRICE

**11. The bearing of previous considerations on price.**—Second in importance only to obtaining the right article, is the price. This is self-evident. If two sellers quote on identical articles, both naming the same date of delivery and the same terms, and both being equally reputable, the purchaser would not take long to decide who should have the order—the low price would undoubtedly get the business. Unfortunately, or fortunately, according to the viewpoint, the case is seldom so simple as this, and it is not always easy to see who has the lowest price.

Everything that has been said in relation to getting the right article has its bearing on getting the right price.

Familiarity with the use to which it is intended to put the article is of importance, not only in obtaining the right article, but in obtaining it at a low figure. For example, a man buying a pump to handle salt water might pay for bronze fittings, whereas if he knew clear water only was to be encountered, he would hardly make the extra expenditure. There are many qualities of goods and many details which make some articles cost more than others. Familiarity with the ultimate use of the article which is being bought, affords many opportunities to do away with unnecessary items included in the salesman's first proposition.

The same thing can be said of the bearing that knowledge of the article itself has on the price. Suppose, for example, it is desired to buy black paint. A knowledge of what service was to be gotten out of the paint is of the first importance. It might be the intention to use the paint for stencilling, and if such were the case, it would imply cheap paint. The buyer who knows paint would then be likely to buy an asphaltic paint, whereas the inexperienced buyer would perhaps pay for a graphite and oil paint on the recommendation of a salesman.

A knowledge of the source of supply has its bearing on price also. If a large quantity of brick for consumption in Buffalo

is required, the competent buyer will not waste his time getting prices from Haverstraw, although it is a large brick center. The freight alone on the brick from Haverstraw would nearly equal the cost of manufacture in Buffalo.

A knowledge of the source of supply implies a knowledge as to the financial status of those producers from whom quotations are solicited.

14 "Many a large contract has gone to a small concern which did not have the resources to complete it. The results in such cases are always annoying, and frequently productive of financial loss to the purchasing house. The buyer cannot afford to deal with houses that are not as fully able to fill the order as his house is able to pay for the goods. In other words, in the placing of a large order, the credit rating of the seller is as important as that of the buyer."

A knowledge of manufacturing processes is also of great assistance in keeping down cost. One would hardly give to a small shop a job which requires the use of a large universal screw-cutting machine. There are a limited number of such machines in the country, located in large shops only. The small shop, if given the order, would either produce the article in a crude manner at a higher cost or else sublet it to the large shop. Thus at best the purchaser would pay two profits.

**12. Knowledge of prices.**—Aside from considerations already discussed with relation to obtaining the right article, the main equipment necessary to possess in order to secure the lowest price is a thorough knowledge of current prices. This can be obtained only by experience and it can be retained only by continued practice and close application. Each time an order is placed, or a contract let, the parties to the transaction store away in their minds the essential facts so that, later on, while the details of the matter may have become vague, the salient points remain. Those who are constantly buying a multifarious number of articles will be unable to remember the prices paid in each instance, but it will be found that they have a general idea of the prices of countless things.<sup>1</sup> "The successful buyer is a storehouse of detailed information." They will be able to name offhand the approximate prices of a surprisingly large number of items, and the exact prices of many others. This ability to know values can be developed by anyone who puts his mind to it.

<sup>1</sup> Prof. Ralph Starr Butler, Alexander Hamilton Institute.

One of the best and simplest ways of increasing one's fund of price-knowledge is "concentration at the moment of signing." Just before affixing the signature to an order or contract, read the prices over carefully, neglecting the other matter which has previously been scrutinized, make a mental picture of these prices and then dismiss the matter from the mind.

Most people who purchase also have occasion to see a great many invoices. A splendid way to strengthen one's price-knowledge is to look at the items without letting the eye fall on the extensions, and, at the same time, say mentally what the price should be. Then look at the extensions and see how nearly correct your mental appraisal was. At first you will be surprised how few are the items of which you know the value, but soon there will be mighty few you do not know. In passing, it should be said that this is the best way to catch large errors in invoices when applied by a competent price clerk.

Another fruitful source of price information for certain articles is through the quotations of daily and trade papers. All raw materials and many standard finished and semi-finished articles are quoted. It would of course be absurd to try to follow daily, or even weekly, every item which is listed, but the general trend of prices can be followed. This is valuable information for the purchaser, for how else can he judge as to the advisability of buying a large quantity or a small one. How else can he tell whether to cover by blanket order the requirements of a year, or buy only a supply for a month? It may be said that this is speculation and not purchasing. It would be if the purchaser did not need the goods, and bought merely to resell them, believing that prices were going up, but this is not the case. A firm engaged in manufacturing bolts uses, we will say, about 6,000 tons of steel per annum. Its stock on hand has been reduced to 1,500 tons, or a three months' supply. If the purchasing agent believes, to the best of his judgment, that steel is at a very low point, and likely to go up during the next twelve months, he would be foolish not to take advantage of the market and cover for the subsequent year. If, on the other hand, he believes steel is going down, his best policy would be to buy only one or two months' supply to reinforce his stock, and place the rest of the year's requirements when the price is more favorable. In either case, the mill takes his order, manufactures the goods and ships as needed. Neither the buyer nor the seller has speculated.



If the purchaser buys more than he needs of an article just because he thinks it is cheap, or the manufacturer does not, in a short time, manufacture the goods because he thinks the labor or ore market will drop, then there has been speculation in either case. Prof. Butler says:

"The buyer who foresees an era of low or of high prices and who adjusts his purchases accordingly, is in a position to save his employer a great deal of money.

"The average man who attempts to determine which way the market is going bases his guess on insufficient information, or on no information at all. The small speculator who attempts this feat usually loses only his own money. The buyer who follows the same tactics stands a chance of ruining his employer.

"Any buying on the basis of future prices is speculative and dangerous. If it is attempted, the buyer's judgment must be based on the most complete information that it is possible to acquire. For example, the buyer for a large cotton mill is keenly interested in the possible fluctuations of the price of raw cotton. No item of news bearing on the cotton supply escapes his attention. He is equally interested in the appearance of the boll weevil in Texas, a threatened mutiny in India, and in the failure of the cotton crop in Egypt.

"In like manner, the tea buyer for a wholesale grocer interprets in terms of future prices such news items as an agreement of the Powers effecting the "open door" in China, the Japanese annexation of Formosa, and the imposition of a new duty on tea by Congress. These examples suggest the range of information that the buyer must possess if his judgments of price movements are to be anything more than guesses."

The same authority states:<sup>1</sup>

"The temptation to buy heavily is not only occasioned by the low prices generally allowed on large orders. An unusual condition of the market frequently tempts the buyer to purchase a large stock of needed supplies under peculiarly advantageous conditions. The restaurant keeper may have an exceptional opportunity to buy fresh fruit at a very low price. He knows that he will have to pay more to-morrow or next week, and if the food could be used before it deteriorates in quality, he would save money by purchasing at to-day's price. The clothing dealer may be offered a lot of garments at a special price which will mean a large profit on the transaction. If he could accurately judge the future demand, he might buy heavily because of the unusual inducement. The automobile manufacturer may have a chance to make a long time con-

<sup>1</sup> Alexander Hamilton Institute.

tract with a certain manufacturer of gasoline engines on especially favorable terms. If he could be sure that improvements and economies would not be effected in gasoline engines in the near future, it would be to his advantage to enter into the contract.

"In all these cases the price is tempting; and, if that were the only consideration, the buyer would be saving money by taking advantage of the quantity figures. There is, however, a second consideration that enters into every buying problem. This second consideration is the necessity of limiting the size of purchases, which may be caused (1) by financial considerations, or (2) by the possibility of depreciation."

More will be said of this under blanket orders.

No matter how profound one's knowledge of prices may be, it will not be either complete nor exact enough for all purposes. Hence, records must be kept. These are usually of three kinds, namely, special price cards, competitive bids and orders or contracts. Before buying any article of consequence, it is customary to receive and tabulate tenders from more than one seller. These bids or tenders can always be referred to for refreshing one's information on price. So, also, are the orders and contracts available in the same way to show not only a record of past performances, but also all the details which affected the price. There are, however, a multitude of small articles on which bids may not have been received, or which are not of great enough importance to warrant a search through the order file, or, again, articles on which the prices vary rapidly. These can be most conveniently kept in card-index form. More will be said of all of these forms later on but they are mentioned here to show how they constitute one part of a purchaser's equipment for knowing prices.

Price-knowledge throws on any deal a certain light not to be had otherwise. Purchasing, as we have seen already, is not simply a matter of giving the order to the bidder with the lowest price. Often the prices tendered are so low that a sound knowledge of prices, in general, on the part of the buyer, would warn him that the seller could not produce the goods for the money asked; that is, to say, he could not do so without degrading the quality or giving short measure. A master of prices will rightly look with suspicion on prices that are too low. If several bids are received on a piece of material and the purchaser notes that the prices of, say, three are approximately right, while another is much too high and still another much too low, he is likely to

start thinking. "Did not this man include in his bid something I do not want that his price is so high? Does he want the order, or is he bidding high to avoid it? Did that man ever make this material before, that his price is so low? Does he know his business? Such musing will probably result in new conferences with the high and low bidders. It may well develop that the bidder who at first seemed high, proved finally to be low, and *vice versa*.

**13. Knowledge of demand.**—Price and demand, in spite of artificial limitations, have always been closely related. Just as it is possible to inform one's self as to the trend of prices by watching their fluctuation, so is it possible to gain an idea as to a probable rise or fall through a knowledge of demand. As Mr. G. A. Hammer says:<sup>1</sup>

"Nor is knowledge of prices more than a beginning of knowledge of the market. The mere fact that a certain price rules is no sure guide. The shrewd buyer must look beyond the mere price and must reach into the causes which have made that price, and those that are material to its remaining at that point, or in causing its fluctuation up or down."

To take a specific case, when the many subway contracts were let by the City of New York, it was at once apparent that the demand for gravel would exceed the supply, especially in winter. Many contractors anticipated this and covered their requirements as far ahead as they could with certainty. Other contractors did not so cover, with the result that they either went without or paid much more for the gravel needed on certain contracts then in progress, than they in turn were paid by those for whom they were doing the work.

Another example which illustrates the same point is as follows: Most leases of office buildings in New York City are from May to May. Consequently old buildings are usually torn down just after May 1, when the owner is able to terminate the leases with his tenants. Therefore, during May, June and July of each year the market is glutted with second-hand materials. The supply is greater than the demand, and second-hand timber, brick and the like can be purchased more cheaply than at any other time in the year. It would be very unwise, therefore, for a purchaser who could anticipate during the early summer his

<sup>1</sup> A. W. Shaw Company.



needs for such material during the fall, not to buy during the "low price" season, unless other controlling conditions prevented.

It must not be supposed that legitimate tangible demand alone increases prices. Even while these words are being written one can observe the effect of a great foreign war on prices. Many articles which we have formerly imported to help out the domestic supply have advanced in price in anticipation of a shortage long before the actual shortage has come. Many other articles are advancing in price because of the temporarily increased domestic demand which has been caused by the rush of our people to lay in large stocks of those goods which they expect will advance later on. Other articles have been deliberately advanced in price by those who market them, simply because the war afforded an excuse of which the sellers wish to take an advantage. These things may not be right, but, as Grover Cleveland said: "It is a condition, not a theory." The purchasing agent who shuts his eyes to demand, whether it be natural or artificial, actual or potential, cannot make the most of his opportunities.

**14. Checking prices by competitive bids.**—Regardless of how profound one's knowledge of prices, or how well posted one may be as to supply, demand, and the other things we have already discussed, there is but one certain way to get the best price. This is by means of competitive bids or tenders. In other words, invite two or more different sellers to submit figures, the number that is requested to bid being dependent on the number of possible competent sellers available, and on the importance of the prospective purchase. This method is universally employed not only by professional purchasing agents, but by individuals generally. It is, however, worthy of extended study both as to the details and the general policy employed in applying it.

We have already seen that the main essential in any purchase is to get the right article. Hence it follows that in inviting tenders, the first step is to make a list of those who can supply that article. It is a waste of both the buyer's and the seller's time to ask for bids from one who can bid only on an inferior article, or whose bid will not be considered in the last analysis. Some purchasers purposely obtain bids on inferior articles, not with the idea of buying such articles, but merely for use as a lever to force down the price of the lowest bidder for the superior product. This method cannot be justified either as necessary or

good policy. There are many ways of legitimately getting the right price as will be shown later in the chapter on strategy.

Having decided who will be invited to submit bids, and having paid due attention to the ability of each to supply the right article, care should be taken to prepare letters which will give full information as to just what is wanted. Many times inquiries are sent out with insufficient data so that the seller is either forced to come back for further information, thereby wasting the buyer's time, or else he will guess at the requirements and submit a bid accordingly. It was estimated by one very successful and representative salesman that about 75 per cent. of the inquiries lack data sufficient on which to base a proper bid. Not only should the seller receive the fullest possible description of the material wanted, but he should also be advised as to the form in which he is to prepare his figure, that is to say, whether a lump sum for the entire lot, a lump sum for separate items or a price per unit is wanted. The inquiry should also state whether the price should be F.O.B. shipping point or delivery point, and the time allowed for supplying the material. The seller should also be asked to state terms; where guarantees are to be asked for, mention of this fact should be made when sending the inquiry.

**15. The lump sum method.**—There are certain advantages to the lump sum method. It is always an advantage to have the prices submitted in a lump sum because the buyer always wants to see how much total money is involved in the transaction, and he is not put to the trouble of figuring this out if his bids are received that way first hand. Furthermore, the method is clean cut. No disputes as to weights or measurements can arise where a flat figure is first agreed on. Again, when the deal gets to a closing point, a flat figure is often susceptible of reduction where a unit price would not be. It is human nature to trade more easily when the figures are simple and easy to grasp, than when they require computation.

**16. The unit price method.**—On the other hand, there are very decided advantages to the unit method. Often between the date when the inquiry is sent out and the date on which the order is placed plans are revised which would make it necessary to throw out the lump sum bid and ask for new figures. This is not so with the unit bid. The change in quantity would be taken care of automatically. Then, too, unit bids are of more service for future reference. For example, we will suppose that



an order has been placed for a lot of structural steel at a price of  $2\frac{1}{2}$  cts. per pound laid down in Rochester. We will also suppose that an order, similar in character of material but of different tonnage is to be placed. After making due allowance for the difference in freight rates to Rochester and wherever the second lot is to be sent, and after making allowance also for any other features that may slightly change the second order as compared to the first, we can use our first price of  $2\frac{1}{2}$  cts. to judge how low are our figures on the second order. However, had the first order been placed for a lump sum of say \$10,000, it would be necessary to go back and reduce the same to a pound or ton basis to make any comparison.

In general, unit costs are more readily kept in mind than lump sum bids. Unit bids are more easily tabulated and are of more use for reference. The choice of method should depend on the case in point, neither being used exclusively. Usually standard articles lend themselves best to unit prices and special articles to lump sum prices. Where there is a trade custom, it will be found best in most cases to follow it.

**17. The cost plus percentage and cost plus a fee methods.—**

Another method sometimes employed is that known as "cost plus percentage" or "cost plus a fee." In other words, the seller agrees to supply the labor or material, or both, at his actual cost plus a stated percentage of profit or prearranged fee. In some classes of work the seller is allowed to include a proportion of his fixed or overhead expense as being a part of the cost of the specific work in question. In other cases the seller agrees to include no overhead expense. The same statement applies to plant and equipment, the use of which is usually regarded as a part of overhead expense.

Obviously the first thing to consider is whether or not the seller is sufficiently reliable to warrant making with him a bargain of this sort. If the seller is an unknown quantity as regards business integrity, it is best not to make such an agreement. A seller of known integrity would not purposely run up the cost of his product in order to increase the amount of commission he would receive, but he might not exercise the same care to keep his cost down as he would where the agreement was on a lump sum basis. In this respect the cost plus a fee method offers an advantage in that there is no incentive to the seller to run up the cost but, on the other hand, should extras arise, the agreement would be



thrown open and the buyer would be almost wholly in the hands of the seller. Where orders or contracts, which involve a large hazard, are placed for labor and materials the cost plus a fee or cost plus percentage system offers decided advantages. The seller in order to protect himself must of necessity add a large item to his profit to take care of loss by reason of such contingency. In other words the buyer pays for the loss in hazardous business, whether the loss actually occurs or not, when the lump sum method is employed. In the cost plus a percentage or fee basis the buyer pays the contingent loss only if it occurs.

Another advantage of the cost plus a fee or percentage method is the saving in time and this will be discussed later.

**18. Tabulation of bids.**—Having decided in what form the bids shall be made, and having received the quotations from those invited to submit them, the next step is to tabulate them. Most purchasers employ for this purpose forms which have been devised to suit their particular businesses. Some examples of such forms are shown in Chapter X, Sec. 97. The tabulation of quotations should show the name of each bidder, his unit prices, the total money involved after extending the unit prices, the date when each can ship, the terms offered, a few main features of the article each seller proposes to furnish and any other pertinent information. The tabulated list should also give the name and approximate quantity of material to which the bids pertain. It is also useful to have space to record the name of the successful bidder, why he got the order, order number and other appropriate remarks. Space may also be provided for repeat orders. It is good practice to attach to the back of the bid sheet all of the original bids and other correspondence, so that the file of papers shows the entire history of the transaction up to the time the order was placed.

Such a bid sheet will show at a glance the relative standing of each bidder. The list can be prepared by a clerk, thus saving the more valuable time of his principal. On large and involved transactions it would be next to impossible to get a proper perspective from a lot of miscellaneous papers without tabulation. Furthermore, no suspicion as to motive on the part of the buyer can arise where the entire history of the situation is so clearly prepared and filed. Sometimes, where each bidder is allowed to see just where he stood, it is more desirable to let them see the tabulation than the bulky correspondence.

After the bids have been tabulated, and the most attractive one selected, the next step will be the making of the contract. This may be done in any one of four distinct ways. First, verbally; second, by means of a single written instrument signed by both buyer and seller, called a contract; third by an order to the seller, accepting his quotation, the order and the quotation considered together being the contract; and, fourth, by an order in the form of a written offer which the seller may accept in writing, the offer and acceptance considered together being the contract. Let us consider these four methods separately.

**19. Verbal contracts.**—It is safe to say that verbal contracts are used far oftener than any other kind. When the housewife instructs the greengrocer by telephone to send a dozen ears of corn and he says "all right," a contract has been entered into. If the price is not asked, the housewife is assumed to have agreed to pay the prevailing rate. The grocer's memorandum, made at the time of receiving the message, may be the only written evidence. The contract, notwithstanding, is just as effective as if a written instrument had been drawn and executed by both parties in the presence of witnesses. But in case a dispute arises, the lack of a written document would make it more difficult for either party to prove its contentions.

Thus it is that verbal contracts are relied on principally where the amount of money involved is small and where a condition of mutual confidence prevails, the buyer trusting that the seller will carry out his word and deliver the goods as promised, and the seller trusting that the buyer will pay for the goods he delivers.

**20. Written contracts.**—Practically every transaction first takes the form of a verbal agreement, even those involving large sums of money. This is followed by a written instrument confirming what has been agreed to verbally. This instrument is called a "written contract" or simply a "contract." All of the conditions are set down in proper form (see Chapter X, Sec. 102) and each party then affixes his signature at the end. Although not necessary, these signatures are witnessed in order to prove their validity should either party try to disprove his act. Usually two copies are executed, one for each party.

This form of procedure is best where very large sums are involved, where labor is to be performed or where the parties are not well known to each other through acquaintance or reputation. It would be the best form in all cases were it not too cumbersome.

It is evident that in the case just cited, the housewife would not wish to enter into a formal contract each time she wished to make a purchase other than one for cash. So, also, no business house would find it convenient to make this form of contract for the numerous purchases which it may make in the course of the day. Hence, we find the use of orders.

**21. Orders accepting quotations.**—The seller having sent in a written quotation, an offer to deliver certain things in consideration of certain payments by the buyer, the buyer may write his acceptance of this quotation, that is to say, he may “order” the seller to proceed in accordance with his quotation (see Chapter X, Sec. 99). The quotation and the order, taken together, comprise the contract. The virtue of this method lies in the ease of its execution. The buyer does not have to submit any papers to the seller for signature other than his direction to proceed, *i.e.*, his order.

**22. Orders in the form of offers.**—Frequently the buyer wishes to accept the seller’s quotation with certain modifications. He then has two courses of procedure from which to choose. The better one is to embody in full the counter proposition on his order form, and, if this is satisfactory to the seller, the latter may write his acceptance, send it to the buyer and proceed with the work. In this case the original quotation becomes void and the buyer’s order plus the seller’s acceptance comprise the contract. This is the reverse of the previous case where the seller’s quotation and the buyer’s acceptance form the contract. The buyer may, however, elect to send his order in the form of “we accept your quotation of —— date with the following modifications.” If the seller then accepts, the seller’s first quotation, the buyer’s order and the seller’s acceptance are all necessary parts of the contract. In fact, several papers may pass back and forth before each point is settled, in which case these various papers taken together comprise the contract. For this reason it is best to follow the first procedure in the interests of simplicity. However, it will be found in practice that even where there is a large amount of correspondence before the minds meet, much time has been saved over using the regular form of contract, as the seller will usually proceed with the work as soon as the order is received on the assumption that the minor details will be settled amicably during the negotiation.



**23. Blanket orders.**—A blanket order, as is indicated by the name, calls for the delivery of material at different times. There are many kinds of these, as for example: orders which call for a definite quantity to be delivered “as called for;” orders which call for supplying “the entire requirements of the buyer” for a specified time at certain prices, or at the market price; orders which cover the buyer’s entire requirements in a certain line, at a sliding scale of prices depending on the quantity consumed during a certain period. All blanket orders have three advantages, namely, they save the time of getting bids and placing orders for each individual item as it is required; they enable the buyer to get a low price because one seller gets all the business in that line, and since the quantity is thus greater than if split among several, the seller is justified in figuring on a closer margin; they can sometimes be drawn so as to get the benefit of the best market. One author states:<sup>1</sup>

“By taking advantage of a marked upward tendency in certain lines at certain times, heavy buying may be warranted, but the fact is always present that depreciation must be considered in connection with the probable advance.”

Blanket orders often can be drawn so as to eliminate the question of depreciation.

**24. Form in orders and contracts.**—We have seen that there must be two parties to every contract and consideration on each side. These facts are again mentioned because they are so frequently lost sight of by buyers. Too many orders are one-sided, stating all the conditions to be met by the seller, but aside from the purchase price, none of the conditions to be fulfilled by the purchaser. Where an order involves a small amount of money, form is relatively of small importance, but it is easy to have the form correct.

A good example of an order is shown on page 126. All orders should state first the name of the buyer and then the seller. An adequate description of the article ordered, the shipping address, time allowed for shipment, price, terms and such special information as may be pertinent should be included. An order, being less formidable than a so-called contract is usually signed by one party and without witness of the signature. It is a good custom to attach the written acceptance to a duplicate copy of the

<sup>1</sup> A. W. Shaw Company.

order, the two papers standing then as a contract. It is also well to attach all subsequent correspondence, in regard to the order, to the duplicate, so that the whole history of the transaction from the time of placing is in one file. This is just as good policy as to file together with the tabulated bid sheet all the papers up to the time of placing the order.

To facilitate the writing of orders, and to be sure that nothing is omitted, it is a good plan to prepare dummies such as the samples shown on pages 130 to 133. It is easy to pick the clauses that fit the case in point, fill in the blanks and pass to the stenographer to prepare the final copy. One can then be sure of the wording and yet the minimum amount of time of both the stenographer and dictator is consumed.

Contracts are as varied in form as kinds of businesses. They should contain, as in the case of orders, a definite and explicit statement of the part to be performed by each party thereto, the terms, money and other considerations, time during which the parties are allowed to perform their parts, penalty for non-fulfilment and in some cases bonus and penalty clauses should be included. Copies of all papers referred to should be attached and made a part of the contract. Where corporations enter into contracts certified copies of the resolution of the board of directors authorizing the officers to enter into a contract should, although not necessarily, be attached. The signatures of the parties should be affixed in the presence of witnesses. In some cases it is even well to affix the corporate seal and to have the signatures acknowledged before a notary.

**25. Summary.**—We have seen, therefore, that the seven sources of assistance which the purchaser can command to insure obtaining the right article will be of equal assistance in securing the lowest price. We have seen further that a knowledge of prices and demand are essential, and that the *modus operandi* of securing quotations and placing orders is important. There are, however, two specific purchases which should be treated separately. These are railroad transportation and real estate.

**26. Railroad freight rates.**—Every purchaser is called upon many times to buy something whose cost is largely one of transportation. An appreciable saving in railroad freight charges can be effected by the judicious use of the official classification. This manual can be obtained from the office of the classification committee. It gives the rules under which the railroads classify

freight shipments as approved by the Interstate Commerce Commission, as well as state commissions having jurisdiction. This manual also gives the weight constituting a minimum carload for different items, the class of almost every conceivable item and much other information pertinent to special classes of shipments.

As is well known, full carload shipments are transported at a less rate per 100 lb. than less carload shipments, and it should be mentioned in passing that they travel faster also. Sometimes it is cheaper to send a shipment as a full car than as a less carload. For example, the minimum carload weight for reinforcing bars is 36,000 lb. Reference to the official classification shows that less than carloads (L.C.L.) take the fourth class, while carloads (C.L.) take the fifth class. Now, if it be proposed to ship 32,000 lb. of bars from Chicago to New York City, on applying to the freight agent we will learn that fourth class takes a rate of \$0.35 per 100 lb. and fifth class takes a rate of \$0.30 per 100 lb. Evidently in this case it would be cheaper to ship a L.C.L. as a C.L. It has been ruled lately that the railroad company must bill as L.C.L. or C.L. according to which is the cheaper, but frequently they fail to do so. Hence it is well for the shipper to watch this on his own account.

Many articles, especially mixed cagoes, are susceptible of different interpretations as to their proper classification. In such cases, it is the custom of freight agents when in doubt to insert on the bill of lading (B/L) the highest rating. They do this on the theory that it is safer to err on the side of the railroad than on that of the customer. On the other hand, if the shipper will take the trouble to consult the official classification and then make out his own bill of lading, using the name corresponding to the lowest consistent rating, the chances are that the freight agent will not change it. We will suppose a contractor wants to ship some electrical air compressors. The freight agent, who is not supposed to be a technical man, would be most likely to classify them as "electrical machinery," which goes third class. The shipper would, however, designate them on his B/L as "Air compressors" or as "Building contractor's outfit," either of which classes takes the fifth class rate.

Sometimes two cars if put on one B/L will go as C.L., whereas they would take the higher rate L.C.L. if billed separately. Sometimes shipments may be removed from the car, a certain



amount of manufacture performed and the material then placed in another car and sent along, all on a through car rate. This is known as a "stop-over privilege." Special rates are granted sometimes on return shipments, that is to say, when material is returned to the point of origin over the same route. Special rules apply to a shipment of machinery on its own wheels. In fact, there are a multitude of rules which the shipper or consignee should know rather than trust to the freight agent.

It is not too late to correct a mistake even after it has occurred, although the best way is to satisfy yourself regarding the classification at the time the *B/L* is made out. Some companies have been organized to make a business of auditing the old freight bills of another company, making claims for a refund to the claim agent of the railroad and either charging for the service a flat rate per bill so audited, or else making the audit on a contingent basis of compensation, usually splitting with the client the refund secured. The author has tried this with a resulting refund of about 10 cts. per freight bill as an average for several thousand. In the writer's opinion there is no need of employing outside assistance for this purpose. It is a simple matter to check freight bills.

The time is not long past when the railroads were very slow to pay such claims. They adopted the policy of wearing out the claimants by the medium of lengthy correspondence. A great change has taken place in recent years, due to the activity of the Interstate Commerce Commission and state commissions. Just claims are now paid fairly promptly, although there is still a marked difference in the policies of different railroads on this score.

**27. The purchase of real estate.**—No purchase requires more care and judgment than that of real estate. The subject is one to which volumes could well be devoted and a few of the essential considerations are all that will be discussed here. Many points of difference between the purchase of real and personal property exist. In arriving at a fair value of a piece of property one is not guided by the sale of another piece exactly identical, as is usually the case with, say, a piece of machinery. Competition takes a less tangible form as no two people can offer the same buyer identical properties. The question of appreciation and depreciation has a far greater bearing on the value of real than on the value of personal property. The question of title is

harder to determine. Taxes and assessments form an important consideration. Restrictions, liens, character of neighborhood, size and shape of plot, character of improvements, transportation facilities—all must be considered. A piece of real estate is fixed. It cannot be moved about as can personal property, should surroundings make a change desirable. Finally, the amount of money involved in a transfer of real estate is usually large, when compared to the average personal property transfer. For the last reason alone, the importance of the transaction is enhanced.

The first thing to do in negotiating for a piece of real estate is to make up one's mind what the property is worth to the prospective buyer, independent of all other values that may be placed upon it. A certain piece of property may have a very different value to one buyer than to another, depending on the use to which it will be put. This is true, whether the buyer wishes the property for actual use as a farm, factory site, dwelling, or for pure investment purposes. The prospective buyer must say, "How much will the property return to me in the form of crops, rent or other form of income." For example, if there is a factory on the premises, what rent can reasonably be expected, judging from rents in the neighborhood for similar properties. An idea of fair rental value having been formed, what will be the taxes, upkeep, assessments, insurance and depreciation. The taxes are a matter of public record. Insurance rates can be obtained from an insurance company, and the yearly charge very closely approximated. Upkeep is much harder to calculate. On an old property, one should ask to see the old book accounts to determine what it has been. Another way is to consult with some expert qualified to form a judgment. Still another way is to figure the probable specific items that will be periodically required, such as painting, papering, roofing, etc. Depreciation can be computed by judging the number of years the building will be serviceable, and having assumed a value, by dividing the value by this number. The reckoning can be revised later. The rental, less the yearly expenses, leaves the net income, which, capitalized at whatever per cent. is desired on the investment, gives the value of the premises to the buyer.

It may be stated by some that the appreciation of the value of the land should also be considered. It should, of course, but not in arriving at a fair market price. A shrewd buyer will always have an eye to the future value of the land, but he should



not pay much for this expected increase unless he wishes to look on the purchase as a speculation rather than as an investment. The price paid should not be great enough to prevent a fair return on the invested money from the outset. The buyer should also remember that many real estate investments prove unprofitable because the depreciation on the outstanding buildings, taxes and insurance have more than offset the expected increase in land values. A distinction should be made between land bought for use and investment to the extent that increased land values, unless realized on by a sale, are an expense rather than a source of income to the owner.

When the buyer's judgment has been formed in the manner described, a loan association should be asked to name what loan it will make on the property. Loan or trust companies which make a business of loaning money on real estate mortgages have experts who can tell very closely the worth of a property. They never make a practice of loaning more than 60 per cent. of the value and their report is thus a good guide to the buyer.

The amount of taxes levied should be known and while property seldom is taxed in full, a general unwritten rule is in force in most localities by which all property is levied for a certain uniform per cent. of its real value. The tax assessment furnishes, therefore, another clue to the prospective purchaser.

After the buyer has decided what the fair value of a given property is, the same rules of strategy will apply in coming to an agreement as in the case of personal property elsewhere described. Especially should it be remembered that there are many extras which the buyer should insist on receiving from the seller, such as search of title, lawyers' fees in drawing up contract of sale, notarial fees, all accrued taxes, insurance and interest on mortgage, if any; further, any physical extras where possible.

After coming to a verbal agreement, a contract of sale will be made between the parties. This contract should be scrutinized as carefully by the buyer as are the final deed and mortgage. Care should be taken never to "assume" a mortgage unless that is necessary, *but* a simple agreement to pay the same should be sufficient. In this way, one will not endanger his other property on failure to meet the mortgage. The buyer should never make with the contract of sale a deposit large enough to allow the seller to pay the real estate agent's commission in full, else he may lose interest in the transaction between the signing of the contract of



sale and the actual transfer of the property. If possible, it is always better to arrange for the seller to take back a mortgage, even though it is for a short term. Thus, if any unforeseen defects arise after the transfer, the buyer will have a lever to compel rectification by the seller.

In conclusion, always have an insurance policy guaranteeing the title and never sign any paper in a real estate transaction, except "by advice of counsel."

## CHAPTER III

### HOW TO OBTAIN PROMPT DELIVERY

**28. Importance of prompt delivery.**—Sometimes, unless the article is secured in due season, it will be of no use at all, or at least of less value. If the department store does not receive its specialties in time for the Christmas trade, the stock will lie idle during the entire year. If the millinery does not arrive before Easter, the chance of sale is lost. The style may change before the stock is disposed of. The necessity for prompt delivery is felt at times in all lines of trade. Time is sometimes of greater moment than either price or quality.

**29. The bearing of previous considerations on time.**—Everything that has been said thus far about the importance of getting the right article at the right price has a bearing on getting it also at the right time. Familiarity with the use to which it is intended to put the article, knowledge of the article itself, knowledge of the source of supply and indeed also of the manufacturing processes are of assistance when placing rush orders. If one is perfectly familiar with the duty the article is to perform, and it is impossible to get the identical thing specified, the purchaser can often get a substitute quickly which will answer the purpose. To do this without knowing the service required would be to court trouble. Sometimes a slight change in the specifications will facilitate delivery without impairing the value of the final product. Here one will find of value a knowledge of manufacturing processes. Some sellers are especially equipped to produce certain articles with much greater speed than others, and a knowledge of the sources of supply will guide the buyer to select only such sellers, when time is of great importance. Knowledge of all of these subjects will enable the purchaser to combat the excuses of the seller when the schedule of shipment is being delayed.

Any manufacturer can do wonders if properly pushed by the buyer. One of the most effective ways to apply this pressure is by first ascertaining the reason for delay (this often involves knowledge of manufacturing processes) and second, by pointing

out point blank to the manufacturer what this reason is and how it can be overcome. It will be likely that the manufacturer knew this all along, but as soon as he discovers that the buyer knows it also and will not brook further delay, action will result. An example of this occurred where a large quantity of small pieces of artificial stone of special shapes was ordered. During their manufacture it became apparent that their delivery would not be made as quickly as agreed in the contract. The buyer called this to the attention of the manufacturer, who gave many excuses and stated that he was doing all that was possible. The buyer sent an investigator who reported that this apparently was the case. According to the terms of the contract, the buyer could have cancelled the order, but this would not have accomplished the essential object of securing the delivery of the material. The buyer then went personally to the factory and the following dialogue ensued: "How many men have you employed on this order?" "All of our men." "How many molds are you using on this order?" "All of the molds which are the right size." "Why don't you make more molds so that you can make these pieces twice as fast?" "It would take so long to make the molds that the order would be finished before the additional molds were ready." "Are the molds which you have, and which you are not using because they are not the right size, too large or too small." "Both larger and smaller." "How many of the large size have you?" "About so many." "Then start at once and line the large molds so that they can be used for this order. Begin to-day. We will have a man on the ground from now on to see that you do. If you don't double the rate of manufacture, we will cancel the rest of the order, as per contract, build the remaining pieces ourselves and charge the excess cost to your account." Needless to say, the manufacturer got busy. The manufacturer knew all along that the molds could be lined, but he did not wish to incur the additional expense until he found the buyer was familiar with his process and meant business.

**30. Rush orders.**—Time is of the essence of rush orders, and the written confirmation should always so state. This is advisable in case it becomes necessary to bring pressure to bear on the seller, so that he cannot plead ignorance of the fact that time was the all-important consideration. It has become common practice to stamp across the face of such orders the word "RUSH." This is a good thing to do, but much more effective if, in addition,



a personal letter is addressed to some one in authority in the seller's organization. The order may be attached to this letter and the letter should emphasize time only. Rush orders should be filed separately, watched more closely and handled differently from the other orders in every respect. Such expedients as "sending by hand," daily telegraphic or mail communications inquiring as to the status of the order, personal calls and the like serve to keep the order in the limelight and show the seller that the buyer is in earnest.

The telephone is probably the greatest aid in rushing orders. The telephone will gain an immediate audience. So also are there few men who would delay the opening of a special delivery letter. In this day of fast mails the special delivery stamp saves more time after delivery than during transit. If the buyer is not strenuously on the trail of the order, he cannot complain if the seller falls down. Persistence sometimes causes the seller to push through the order to be rid of the annoyance the buyer is giving him. Although not very elegant, the expression known as "tickling" the seller well describes this method which often produces results.

**31. Emergency orders.**—Some firms employ a special form known as "emergency orders." These are usually sent by hand or special delivery and are couched in terms which show unmistakably that speed is essential. It is human nature to take care of emergencies first.

**32. Mill and stock orders.**—In most lines of trade supplies of raw materials are maintained in the principal trade centers for use for the manufacture of rush orders. Many finished articles are kept in stock as well. Stock orders always cost more than orders which can wait their turn at the mill or factory, since the jobber, or whoever else carries the stock, must add enough to the mill price to cover the rent of his storehouse and interest on the money invested in the stock. Also, inasmuch as the quantity in any stock order is likely to be less than in a mill order, a larger margin of profit will be figured by the seller. Furthermore, the buyer is willing to pay a fancy price for what he must have quickly, and the seller knows it.

Where a special price is paid for quick delivery the order should state "to be made from stock material—manufacture to be started in (—) days." Sometimes purchasers unconsciously pay stock prices for mill deliveries.

**33. Bonus and penalty clauses.**—In important contracts it is quite customary to insert a clause stating that the purchaser will pay a certain sum per day for each day that the seller improves on the contracted date of shipment or delivery, and the seller agrees that he will pay or cause to be paid to the purchaser the same sum per day for each day's delay beyond the agreed date of shipment or delivery. Such bonus and penalty clauses are advantageous under certain circumstances and when properly framed. In no case should the amount of penalty named be much out of proportion to the actual damage that would be caused by delay nor should the bonus be much out of proportion to the actual benefit that would accrue by reason of an anticipated date of shipment. If possible the bonus and penalty should be the same per diem because experience and trial have proved that they can then be upheld more readily than one-sided unreasonable clauses. In fact, it has been fairly well determined that where a penalty is provided and no corresponding bonus is named, even when the amount named as the face value of the contract is intended to be sufficient to offset the lack of a bonus provision, such a penalty clause cannot be enforced.

No bonus and penalty clause should be relied on implicitly. It will be found of use principally as an incentive to the seller but not as a remedy for that seller's defects, nor will it even be found to provide adequate satisfaction for any damage that may occur.

**34. Tracing shipments.**—Manufacturers ordinarily will not accept an order F.O.B. delivery point and guarantee the time when the material will reach destination. The manufacturer assumes that if he puts the material on the cars in contract time, he should not be held accountable for the action of the transportation company, over which he has no control. In this he is right ordinarily. Therefore, the responsibility of tracing his shipments after they leave the factory often devolves on the purchaser.

In some cases it is well to have the manufacturer put a "tracer" on his shipment, *i.e.*, have the railroad follow the car movements by wire from the point of origin, reporting back from time to time. Such a tracer can be put on at the same time from the point of delivery, by the consignee, provided the manufacturer furnishes the buyer with car number, initials and routing. Such tracers are only fairly satisfactory. They locate the trouble if there is a delay, but usually the report is provokingly slow in reaching the

buyer. Their main good lies in the fact that the railroad company is not very likely to sidetrack a traced car unless there is a very good reason, such as a breakdown. Even then, the contents of such a car will be transferred more quickly than one which is not traced.

The best way to trace a car is by a personal representative. The method is as follows: One or two days after the car has left the point of origin a messenger leaves over the same route on a slow accommodation train. He should take with him, of course, the car number, initials, routing, and a copy of the bill of lading. He should sit on the rear platform of the last coach and keep a sharp lookout for his shipment whenever a siding is passed. The character of some shipments will make them recognizable from a long distance. For example, a flat car with contractor's machinery is readily picked out from a number of other cars. Where possible, box cars, in order to spot them readily, should be labelled with a large piece of white cloth, or other distinguishing mark, before leaving the factory. Whenever a town with a yard of some size is reached, the messenger should get off and walk through it. If he does not see his shipment he should consult the freight agent to ascertain when it left this particular point and where, in most likelihood, the shipment would be held up ahead. Freight agents are usually accommodating, if properly approached, and they can give much assistance to the tracer if they wish to do so. When the shipment is finally located, the messenger should follow it through to its destination. He should use every effort to get it moving if he finds it blocked. Here, again, he can use tact to good advantage with the local freight agent.

**35. Expecting the impossible.**—Many orders are placed with dates of shipment specified which really are impossible to meet. The seller often knows it when he takes the order and the buyer should know it. The seller may conclude that he can do "as well as anyone else" and so agrees to the impossible. The buyer is likely, too, to bend all his efforts toward getting the contract with the "time he wishes" signed up and to use too little effort to ascertain what is possible. In such cases, the buyer usually gets the hot end of the poker. When the order is partially completed and he awakens to the fact that the scheduled time of delivery will not be met, it is too late for him to take advantage of cancellation clauses. His only resource is to sit by and feel injured.



Some purchasers also make the mistake of habitually complaining about the delivery of their orders whether speed is of importance or not. In time such companies get the reputation of being "chronic growlers" and their complaints are discounted accordingly.

**36. Obviating rush orders by perpetual inventory.**—The surest way to obtain goods on time is to order them sufficiently long in advance. This, as we have seen, is not always possible, yet it is questionable if it is not lack of system, as often as circumstances beyond the buyer's control, that leads to the placing of rush orders. In many forms of business the need of many classes of goods is fairly steady. Where stockrooms are maintained to house these goods, the clerk in charge should keep a running or perpetual inventory. Beginning with the regular classified inventory, taken at the end of the previous year when actual stock count was taken, he will make additions to this list each time goods are received into stock and he will make subtractions from this list each time goods are taken out of stock. He will, without instruction, put in a requisition on the purchasing agent (or accounting department, as the case may be) each time this inventory shows that a given item has fallen below a certain predetermined quantity. For example, we will suppose a paper mill uses aniline blue at the rate of 1,500 lb. per month. We will also suppose it requires a maximum of thirty days to get a new consignment after an order is placed and that therefore, to be on the safe side, the stock clerk is told never to let his stock get below 3,000 lb. or a two months' run. A proper perpetual inventory would show the stock clerk when to order without depending on his memory, or on his actual count of stock, which is often difficult.

Some concerns have this inventory checked up at regular intervals, say weekly, by the purchasing department, to make sure no item is overlooked. Most concerns, which do not feel they would be warranted in keeping a perpetual inventory, nevertheless do go over their stock at definite stated intervals and thus approximate the same result.

The question of when to order is just as important as what to order or where to order. Space does not permit justice to be done to this question here. It is, however, touched on in the chapter on departmental organization.

**37. Summary.**—To conclude: Knowledge of the article to be purchased, of its ultimate use, of process of manufacture, of

allowable substitutes and of the source of supply; the employment of suitable forms; the use of the bonus and penalty system; the following up of orders and shipments and the utilization of stock supplies are all factors that have their bearing in securing prompt shipments. The need of a running inventory must also be kept in mind.

## CHAPTER IV

### MAKING THE PURCHASE CONFORM TO FIXED POLICY

**38. Advantage of a definite policy.**—Most corporations and individuals have a definite general policy affecting all departments of their business. For example, one corporation will make a practice of buying only the highest grade of materials while another will pursue the opposite policy. One corporation will discount all of its bills, in which case terms become of great importance. One business house will place its orders on the basis of merit only, always giving its orders to the low bidders, other things being equal; while another house will try to place its orders where it will get the most return by way of favors or reciprocal business, without so much regard for price. One company will display the results of competitive bidding to all bidders, while another company will keep the bids secret. One company will try to confine its purchases in any one line to one or two sellers, while another will shop the entire market. In general, some companies maintain a high-class, open-and-above-board, clean-cut attitude toward those from whom they buy, while other companies resort to sharp practice, take advantage of the sellers, and make each order stand on its own feet without regard to future orders. Some houses even use questionable methods. Of course, no business house can be classified rigidly, but these and other policies do exist, as often by chance as by choice. The employees of both buyer and seller are very quick to sense these policies which usually emanate from the heads of the firm.

It is an advantage to have a definite policy in certain things, and if that policy is a good one, it is an advantage to make it well known.

A good policy is often advertised extensively so that it becomes one of the firm's greatest assets. This is particularly true in the selling department, but the buying department cannot fail to recognize the same principle if it would secure the greatest advantage. Corporations, no less than individuals, take their stand in the business community in accordance with the characteristics which they display. Just as an automobile company known by



the high character of its cars and the readiness with which it makes good any defects will attract high-class trade, so also will a company known by its square treatment of those from whom it buys attract the highest class of sellers. It is astonishing how shrewdly salesmen size up the different customers, and how they adapt their methods accordingly. It is also astonishing how hard it is for some companies with a questionable reputation, or with a reputation for anything that works a hardship on the seller, to obtain good service, or sometimes any service at all from high-class sellers. Speaking of one phase of this question, that of slow pay, W. Richmond Smith says:

"The enormous volume of vouchers for the payment of supplies, which have to be prepared and recorded by the purchasing departments (of New York City) and recorded and paid by the comptroller, due to the splitting up of quantities of supplies purchased upon contract and the flagrant abuse of the open market order method of purchasing, unnecessarily delays the payment of bills for supplies purchased by the city. Not only does this delay very considerably increase the cost of supplies directly on the prices bid on contracts, but it has a very great effect in deterring the best business firms in the city from competing for the city's business. This is one of the principal reasons why irresponsible and high-priced middlemen are so often the successful bidders for the City's supply contracts."

On the other hand, companies of high repute often can get exceptional service, just as they, in turn, get exceptional prices for their own output.

**39. Important for purchaser to know the policy.**—Every purchaser should know the policy of the individual or corporation that he represents. Quoting from Professor Butler, "He must know (1) its financial resources, so that he may determine whether he is in a position to demand and receive the most advantageous credit terms; (2) in a general way at least he must know the usual and unusual demands upon the available funds of the house, so that he may be able to determine the possibility of any heavy buying that may seem desirable; (3) he must know the attitude of the owner or the directors toward the question of expansion or curtailment of production, so that if there are any plans in contemplation affecting the kind and quantity of the output, he may be able to govern his purchasing accordingly." If he sees that the policy is good, he should attempt to impress it on those with whom he comes in contact. If he sees it is bad, he should advo-

cate a change, bringing to the attention of his superiors the advantages of a change. Every purchaser should formulate his own minor policies and adhere to them as closely as may be, so that he takes on a known character.

**40. Different policies for different businesses.**—It is impossible to state definitely just what policies should be adopted by corporations with respect to their dealings with sellers. This will depend on the size, financial strength, character of business engaged in, affiliations, etc. For example, a concern which is weak financially cannot be as liberal in its attitude as one that is strong. However, some of the advantages of specific policies can be set down.

The small or comparatively small purchaser will usually find that it pays to deal principally with a few houses in each line. Cordial relations are thus developed so that when anything is wanted in a hurry, or other favors are desired, the seller will feel disposed to grant such requests. When the volume of purchases is small, the buyer cannot hope to create a standing that will be known throughout the country, but he can obtain this standing with a few of each class. It may seem like money wasted to pay more sometimes under these circumstances, but the difference, with interest, will return sooner or later.

On the foregoing point, Mr. Stone, president of the Tucker Tool & Machine Company, in a letter to the author, said:

"There is a great deal to be said on the subject and I believe that considerable light could be shed on it from the viewpoint of the man who calls upon the purchaser and sells to him. You may not know that many of us who are otherwise keen competitors in business will often get together and sit down and talk over the personnel of the different men we sell goods to, and the man who can come through such an ordeal and be well spoken of is mighty sure to get from the people who call upon him any inside or special terms that there may be going."

The same idea was expressed by another, thus:

"It is common practice for a salesman who has some real bargain to offer to place the proposition only before those buyers whom he counts as his personal friends."

"A friendly salesman can also do a great deal in the way of facilitating deliveries, obtaining favorable credit terms, and giving the purchaser trade news that is of direct value to him in his work. It is distinctly worth while for the buyer to cultivate the good will and friendship of

<sup>1</sup> Prof. Ralph Starr Butler, Alexander Hamilton Institute.



the men with whom he deals, and the most potent factor in this endeavor is the possession of the quality of tact."

The following extract from the *New York Times Annalist* on "The Value of Business Constancy," while pertaining particularly to the market for securities, expresses the principle governing fixed relations in any market.

"At this juncture comes the news that the City of Montreal which has recently floated loans in London at over 4½ per cent., is turning to New York for more favorable terms. To put the matter bluntly, it has for the moment sucked the European market dry—at least it has sucked it dry at the terms that it is disposed to offer, and consequently it appeals to New York for help. We do not imagine that the bonds will stay in America for good and all, but rather believe that they are finding a temporary resting place, to be exported at a profit to London, their traditional home, when things look brighter here. They are waiting under cover till the clouds roll by.

"That Montreal has a perfect right to turn elsewhere than to London for her finance, and that New York has an equally good right to make a profit as intermediary when she sees the opportunity no one would deny. But it is doubtful whether the Canadian borrower is altogether prudent in changing his market, and whether the New York lender will find it altogether easy to "shoot" the bonds on London when the time comes. A market is a ticklish thing, and the wise man—whatever his business, whether he deals in scrip or bonds, in insurance policies, in soft goods, or in frozen meat—does not readily change it unless he sees his way clear before him. We sometimes speak of London, and particularly of the City, as though it were one great market, whereas in fact it is a conglomeration of thousands of markets, sympathetic markets, no doubt, but at the same time distinct from one another and controlled by specialists who make one particular business their peculiar study. The Stock Exchange contains a thousand different markets for securities, Lloyd's a hundred different markets for insurance, Mincing Lane a hundred different markets for produce, Coleman Street many different markets for wool, and so on. Each has its own recognized speciality, its own record and its own experience. Most of them are essentially conservative, and will take business that they are accustomed to from force of habit and because they do not like to destroy old connections, even though they do not care for the business itself. Every time you deal with a man for one particular piece of business you make it easier to repeat the deal, and incidentally most difficult to place the business with his neighbors. You are emphasizing the fact that he rather than the man next door is 'the market.'

"And here lies the peculiar danger of changing your market, for busi-



ness, in Europe at any rate, goes largely by routine, and every alteration raises a suspicion against the business. 'Why do you come to us instead of to So-and-So' is the natural question to ask a man who comes along to a fresh market. 'He specializes in this class of business; he has always taken it; there must surely be something wrong with it when you bring it to me rather than to him.' And the market once changed is not easily restored, for when you take the business back to your old friend he asks the same question in another form: 'Why offer me this business now, when you took it away twelve months ago? Has So-and-So had enough of it, that you take it back again from him?'

"It is the danger of getting involved in difficulties of this kind that makes borrowers chary of looking out for fresh markets in times of stringency. The Balkan States, despite the onerous terms imposed by Paris bankers, still prefer to place their loans in Paris rather than engineer a fresh market in London, and probably they are wise to do so, for any loan brought to London by them would be suspected, and when the business went back to Paris, Paris would probably screw its terms up to teach the borrowers a lesson in business constancy."

The larger the corporation, however, the more impersonal it becomes and the greater the advantage of placing the business on the basis of merit and under a system of competitive bidding, even though the business does not always go the route the purchaser would prefer. Sellers are always anxious to supply the large buyers and will respect a fair clean policy.

Where there are interlocking interests, that is to say, where some of the owners of the business are also part owners of the seller's business, competition may be restricted. In such cases, it is best not to ask for general bids for the purpose of pretending that competition exists. The seller soon realizes that he is shut out and will not figure closely. The figures are, therefore, of no value and no one has benefited. In fact, the buyer has been injured, for should favors or genuine figures be really wanted from the outsider at some other time, he will not respond because of his belief that he is hearing again the cry of "Wolf".

**41. Personal relations between buyer and seller.**—Friendship has been and always will be an important factor for the seller and buyer. Human nature is stronger than rules. Happily, the days when friendship alone—when bribes and other inducements of a doubtful nature were the controlling factors in buying—are passing. But friendship on a proper plane can be of advantage to both parties, and is to be encouraged. Purchasing agents are often called upon to buy something without their ken. It is both

natural and proper that they confer with their friends to learn the best place to buy such material and what a fair price would be. In busy seasons, when the seller has his shop full and is independent, he may go out of his way to please an old customer. He will take an order from a buyer who has maintained friendly relations, whereas he might not if the relations had been strictly formal. There are many times when a buyer desires a small quantity of material for which any price the seller can reasonably ask is too low to warrant the interruption of his shop routine in order to please the customer. Here, again, friendship, not money, will produce results.

Friendship is a matter apart from money. It costs less than almost anything else and pays a handsome return. One purchasing agent will make an enemy of a seller when he informs him that the order was placed somewhere else. Another purchasing agent will make a friend under the same circumstances. No one doubts which is the better procedure. Courtesy, plain dealing and small favors which cost nothing more than a little time and effort are things which are appreciated by the seller and which return multiplied when least expected.

**42. Summary.**—To conclude: Every business house should have definite general policies, and these policies should be good ones. They will become an asset if properly put before the public through the buying department, as well as through the selling department. The buying department should not pursue a policy counter to the other departments of the same company. The specific policies will be different for different businesses, and for different sizes of the same business. Finally, it is clear that cordial relations between buyer and seller should be encouraged as a part of any policy.

## CHAPTER V

### HOW TO OBTAIN FAVORABLE TERMS

**43. Meaning of terms.**—It is customary to state in all orders and contracts the date or dates on which payments shall be made, the discount allowed from the prices named for early payment and any special arrangements which will affect the amount to be paid ultimately to the seller by the buyer. In other words, the “terms” are usually stated. Where not stated, it is understood that the terms which are in common usage in the specific line of trade will apply. It is much better to state the terms to avoid misunderstanding.

**44. Importance of favorable terms.**—When it is remembered that some businesses, which have little or no working capital, make a quick “turnover” of their stocks and receive the money from their customers before they, in turn, pay for them, it will be seen that terms are sometimes of exceeding importance. The failure of such firms to arrange for sufficient time to make collections with which to pay their own creditors would be disastrous. Again, many business houses borrow a large part of their working capital from banks, paying from 4 per cent. to 6 per cent. although the margin of profit on their goods may be very small. Such houses will place great stress on the terms of their purchases as well as on the terms of their sales, as the longer the terms granted by those from whom they buy, the less working capital will they have to borrow at the bank. If such concerns paid promptly for their goods and did not receive pay promptly from their customers, their net yearly earnings might be consumed in paying bank interest.

Some idea of the importance of cash discounts can be gained from the following table. For example, one very common custom is to specify 2 per cent., 10 days, 30 days net. If the bill is not discounted it means that the debtor prefers to wait 20 days longer and pay 2 per cent. more. Now, 2 per cent. for 20 days is equivalent to 36 per cent. per annum, a very high rate of interest, especially for a short loan which is what the 20 day extension



practically amounts to. If a banker asked 36 per cent., even if he were legally allowed to do so, some very hard things would be said of him by the very man who does not discount his bills.

## CASH DISCOUNTS

Net time	Cash discount	Equivalent per cent. per annum
30 days.....	$\frac{1}{2}$ of 1 per cent., 10 days.....	9
60 days.....	$\frac{1}{2}$ of 1 per cent., 10 days.....	$3\frac{3}{4}$
90 days.....	$\frac{1}{2}$ of 1 per cent., 10 days.....	$2\frac{1}{4}$
30 days.....	1 per cent., 10 days.....	18
60 days.....	1 per cent., 10 days.....	$7\frac{1}{2}$
90 days.....	1 per cent., 10 days.....	$4\frac{1}{2}$
30 days.....	2 per cent., 10 days.....	36
60 days.....	2 per cent., 10 days.....	$14\frac{2}{3}$
90 days.....	2 per cent., 10 days.....	9
30 days.....	3 per cent., 10 days.....	54
60 days.....	3 per cent., 10 days.....	$21\frac{3}{4}$
90 days.....	3 per cent., 10 days.....	$13\frac{1}{2}$
60 days.....	2 per cent., 30 days.....	24
90 days.....	2 per cent., 30 days.....	12

**45. Usual terms in different lines of trade.**—The following table gives the terms which are usual in some lines of trade, and which are allowed by manufacturers or dealers to consumers.

## USUAL TERMS

Acetylene, commercial.....	No cash discount....	30 days net.
Adding machines.....	2 per cent., 10 days..	30 days net.
Aluminium.....	No cash discount....	30 days net.
Artificial stone.....	No cash discount....	Special.
Asbestos, mechanical supplies...	2 per cent., 10 days..	30 days net.
Asphalt.....	2 per cent., 10 days..	60 days net.
Asphalt.....	1 per cent., 10 days..	60 days net.
Bars, iron and steel.....	$\frac{1}{2}$ per cent., 10 days.	30 days net.
Bolts and nuts.....	.....	30 days net.
Bricks, fire.....	No cash discount....	30 days net.
Brick, paving.....	50¢ per M, 20 days..	30 days net.
#Carpets.....	4 per cent., 10 days..	60 days net.
#Carpets (advance orders).....	.....	90 days net.
Castings, iron.....	2 per cent., 10 days..	30 days net.

Castings, steel.....	1 per cent., 15 days..	30 days net.
Cast iron pipe, gas.....	No cash discount....	30 days net.
Cast iron pipe, water.....	No cash discount....	30 days net.
Cement.....	1¢ per bbl., 10 days..	30 days net.
#China.....	2 per cent., 10 days..	30 days net.
Cigars, lots over 1,000.....	4 per cent., 10 days..	4 months net.
Cigars, lots under 1,000.....	2 per cent., 10 days..	60 days net.
Coal.....	No cash discount....	20th of month following shipment net.
Cutlery.....	2 per cent., 10 days..	60 days net.
Diving outfits.....	2 per cent., 10 days..	30 days net.
Drafting-room supplies.....	5 per cent., 30 days..	60 days net.
Drugs.....	No cash discount....	30 days net.
Dynamite.....	2 per cent., 10 days..	30 days net.
Earthenware.....	1 per cent., 10 days..	30 days net.
Electrical supplies.....	.....	30 days net.
Electric machinery.....	No cash discount....	30 days net.
Express.....	No cash discount....	Special.
#Fabric.....	2 to 6 per cent., cash.	60 days net.
Freight.....	No cash discount....	Special.
#Furniture.....	2 per cent., 10 days..	30 days net.
#Furs.....	2 to 10 per cent. cash.	Advance orders dated Dec. 1st.
Gasoline.....	.....	30 days net.
Glass, specialties.....	2 per cent., 10 days..	30 days net.
Glass, window.....	2 per cent., 10 days..	30 days net.
#Gloves, silk.....	6 per cent., 10 days..	60 days net.
#Gloves.....	0 to 6 per cent. cash.	0 to 60 days net.
Groceries, sundries.....	1 per cent., 10 days..	30 days net.
Hardware, heavy.....	2 per cent., 10 days..	60 days net.
#Hosiery.....	0 to 6 per cent. cash..	0 to 60 days net.
Ink.....	2 per cent., 10 days..	30 days net.
Instruments, technical.....	2 per cent., 10 days..	30 days net.
Insurance, marine.....	3 per cent., 10 days..	30 days net.
Iron, malleable.....	.....	30 days net.
Iron, structural.....	.....	30 days net.
Junk.....	No cash discount....	Due receipt B/L.
Kerosene.....	.....	30 days net.
Labor.....	No cash discount....	Special.
#Lace.....	6 to 7 per cent. cash..	60 days net.
Leather, belting.....	4 per cent., 10 days..	90 days net.

Leather, belting.....	3 per cent., 30 days..	90 days net.
Lumber.....	2 per cent., 30 days..	60 days net.
Machinery, parts.....		30 days net.
Machinery, standard.....		30 days net.
Machinery, special.....	Special.....	Special.
#Millinery.....	6 to 7 per cent. cash..	60 days net.
Nails.....	2 per cent., 10 days..	30 days net.
#Notions.....	0 to 7 per cent. cash..	60 days net.
Oil, refined.....	1 per cent., 10 days..	30 days net.
Oxygen.....		30 days net.
Packing, steam.....	2 per cent., 10 days..	30 days net.
#Piece goods, woolen.....	2 to 6 per cent., 10 days	60 days net.
#Piece goods, cotton.....	2 per cent., 10 days..	60 days net.
Pipe and fittings.....	2 per cent., 10 days..	60 days net.
#Ready-made goods, ladies.....	3 per cent., 10 days..	30 days net.
Rope, Manila.....	1½ per cent., 10 days.	30 days net.
Rope, wire.....	2 per cent., 10 days..	30 days net.
Rent.....	Cash, in advance.	
Rubber goods.....	2 per cent., 10 days..	30 days net.
Second-hand, all classes.....	No cash discount....	Due receipt B/L.
Shapes, iron and steel.....	½ per cent., 10 days.	30 days net.
#Shoes.....	0 to 2 per cent. cash..	0 to 30 days net.
Slate.....	2 per cent., 10 days..	30 days net.
Stationery and office supplies....		30 days net.
Sewer pipe.....	2 per cent., 15 days..	30 days net.
Tea.....	3 per cent., 10 days..	4 months net.
Tools, mechanics.....	2 per cent., 10 days..	60 days net.
Tools, precision.....	No cash discount....	30 days net.
Tools, machine.....	1 per cent., 10 days..	30 days net.
Valves.....	2 per cent., 10 days.	30 days net.
Valves (and).....	2 per cent., 10th of month following....	30 days net.
Waste, cotton.....	1 per cent., 10 days..	30 days net.

(NOTE.—Items marked # refer to terms allowed by jobber.)

The rates of cash discount and advance datings given in the foregoing table are not to be taken as hard and fixed. One with a high rating, a reputation for prompt payment, and one who is sound in general, financially, can always get better



terms than one who is weak, "slow pay," and who does not enjoy a high rating. Speaking of this Mr. Llewellyn of the Carnegie Steel Co. said to the author:

"I might suggest that it would be worth while to include in your book the statement that purchasers would gain by establishing their credit with the principal manufacturers, well ahead of the time when they expect to buy, in order to prevent misunderstandings and delays when the material is actually needed. This is a point which is often overlooked by purchasers who know that they deserve credit, and assume that the manufacturer is equally familiar with their condition, which, of course, the manufacturer cannot be unless steps are taken well in advance to get these matters fully arranged."

**46. Tendency to restrict terms.**—The terms given hereinbefore are known as "usual," and a considerable variance in the different lines of trade is noticeable. The tendency is constantly toward less liberal terms as the manufacturers are beginning to realize to what high rate per annum even a small cash discount is equivalent. As Mr. M. E. Stone, president of the Tucker Tool & Machine Company, expressed it:

"There is a growing tendency, which has been marked in the last two years, to discontinue the giving of 2 per cent. cash discount. This cash discount is larger than it should be, and is a "left over" from the days of 8 per cent. and 10 per cent. money. During the past year a great many factories have either abolished the cash discount altogether or reduced it to 1 per cent. I doubt if within two years there will be many '2 per cent. 10 days' terms left. It is distinctly a waste to the factory, because it is never figured into the cost of production or selling price, but is a financial matter. With the strengthening of our manufacturing concerns, the pressing need of money for payroll purposes has passed away, and there is no reason why they should pay such a large premium for prompt cash when they can borrow all the money they want at the bank at  $\frac{1}{2}$  per cent. for thirty days."

Nevertheless, the question of terms will always remain to some extent and good credit will always have some advantage over poor credit. A skillful purchaser will always be able to get something better, in terms, than the unskillful purchaser.

**47. Summary.**—Consideration of the foregoing statements teaches us that the terms are of the very greatest importance with the house that is financially weak or with the house that operates on other people's money, whether such money is borrowed from a bank or from those from whom it buys. But we should also

note that cash discounts represent a very large rate of interest per annum, a fact to which the seller is more alive than the average buyer. Hence the seller is gradually becoming less liberal in the matter of terms. This statement applies to all lines of trade. Therefore, the buyer must be alive to secure good terms in every case, or he will find them disappearing to a still greater degree.

We have also noted that favorable terms vary directly with a buyer's credit, and it should be added, inversely with a seller's credit. In other words, the better the buyer's credit is, the better terms he can compel; and the poorer the seller's credit is, the better will be the terms he will allow in order to get cash. These two facts instruct the buyer, and, together with the facts brought out in the chapter on strategy, form the basis of the rules to apply in obtaining the most favorable terms. These rules are:

1. If the buyer's credit is good, use this as a lever for a large cash discount or long dating.
2. If the seller's credit is poor, insist on a large cash discount.
3. Always arrange favorable terms, but make this the final concession which the seller must make to get the order.

## CHAPTER VI

### PERSONAL CHARACTERISTICS AND QUALIFICATIONS

**48. Other desirable qualifications besides knowledge.**— Knowledge is not the only qualification that a purchaser should possess. To enumerate all of the desirable qualities would be to name all of the virtues. It goes without saying that honesty, truthfulness, industriousness and loyalty, are essential to success. In fact, it is not the lack of these that causes one buyer to be less successful than another. To take for example, honesty, there is no doubt that the percentage is very high. One author states:

<sup>1</sup>“Considering the many temptations for speculation or graft that are offered the buyer of any firm of importance, the ratio of dishonesty is small indeed. Buyers as a class do not betray the trust in them reposed.”

Another says:

<sup>2</sup>“In view of the great opportunity for disloyalty and ‘graft’ in their calling, the purchasing agents of the country present a striking example of the general loyalty of employees to their employers and of the basic honesty which is responsible for the confidence on which our business system is built.”

There are, however, several characteristics which apply with peculiar force and these will now be taken up in turn.

**49. Broadmindedness.**—The buyer, especially the professional purchasing agent, is proverbially narrow. He often wonders why he does not advance in rank and pay as do others who are less fortified by knowledge, industry and experience. He often wonders why the executive to whom he reports takes many large deals out of his hands, feeling he could trade to better advantage himself. The answer usually is that the purchasing agent lacks breadth. Large questions come up all about him yet he cannot see beyond his own doorstep.

The lack of breadth in most purchasing agents brings up the question as to whom the buying should be intrusted. Many large establishments employ special men whose sole or principal

<sup>1</sup> A. W. Shaw Company.

<sup>2</sup> Prof. Ralph Starr Butler, Alexander Hamilton Institute.



duty is to do the purchasing. Other establishments delegate the buying to one of the officers, believing the supervision of this department of sufficient importance to be handled by one whose chief ability is of an executive nature. There are advantages and disadvantages to either system, generally speaking, and the nature and size of the business will usually determine which method to employ.

<sup>1</sup> "The modern tendency is continually to broaden the scope of the buyer's duties. At one extreme is the member of the small office organization to whom is delegated the task of purchasing the office supplies. At the other extreme is the buyer for the large factory who purchases raw materials, supervises their storage and distribution, and is largely responsible for the satisfactory working of the cost accounting system so far as it pertains to the processes of production. The duties of the buyer are so closely related to those of other employees that the tendency is more and more to give him a direct interest in all the work that is immediately allied to purchasing."

The professional purchasing agent will often be able to secure a better price than will one whose mind is devoted in a large part to executive duties, inasmuch as the professional will be in closer touch with the details of his department. Like all specialists he will follow the trend of prices, keep in touch with salesmen and other purchasing agents and constantly strive to perfect himself in all things which tend to promote his skill as a buyer. But, like any other specialist, he is likely to become narrow. He will often sacrifice quality for price. He is likely to forget the importance of broad policy and seek only to increase the reputation of his own department. Many purchasing agents stand in their own light in their refusal to make their purchases accord with the policy of their employers, believing that the business is conducted to purchase material, rather than that they purchase material as a necessary though secondary adjunct to the conduct of the business. On the other hand, the executive, who has a broad viewpoint of the business, who knows the importance of having each department in harmony with the others and who knows the value of reputation for square dealing with the trade, will see the value of price in its true proportion. The executive, being under less obligation to make a reputation in purchasing, may pay more for the individual article but all things considered, he will usually save his company money in the course of time.

<sup>1</sup> Prof. Ralph Starr Butler, Alexander Hamilton Institute.

Most salesmen would prefer to deal with the executive rather than with the out-and-out professional purchasing agent, especially if they have goods of merit to offer. They realize that the executive will listen more readily to other considerations than price and that they will receive broader treatment. The reverse is just as true, that the purchaser would prefer to deal with the executive head of the selling company when special service is required, unusually large orders are to be placed or when difficulties arise. The executives on either side of the transaction are appealed to with the result that matters are speedily adjusted. Purchasing agents resent having their superior officers go over their heads more than salesmen do. The latter are glad to avail themselves of almost any means of concluding a sale, knowing that they will receive their commission or at least the credit. Purchasing agents, unlike salesmen, cannot show the result of their efforts by the volume of business transacted and so are jealous of any interference with their departments. The purchasing agent often has himself to blame in these cases for, if he were broader gaged in his dealings, there would be less occasion to over-ride him.

**50. Tact.**—Whoever is intrusted with the purchasing should be tactful. This does not mean that he should be a "mollycoddle," nor that he should always be on the defensive. As we shall see later, it is sometimes necessary to display anger—to show one's teeth. But, to speak generally, the homely saying that "You can catch more flies with molasses than with vinegar" is appropriate.

Tact implies a knowledge of human nature, a knowledge of those with whom one deals. It implies further the knack of utilizing this knowledge to get the desired action with as little friction as possible. It implies diplomacy—playing through the opponent's weakness rather than through his strength. Tact is to be used by the purchaser within his own organization as well as without.

<sup>1</sup> "Through his function of buying supplies for all parts of the business—office as well as factory—the purchasing agent is brought into contact with practically all of the important employees.

"If he has the power of vetoing their requisitions, a knowledge of their individual characteristics is essential to guide him in this important duty. If a careful, conservative department sends him an unusual

<sup>1</sup> Prof. Ralph Starr Butler, Alexander Hamilton Institute.

requisition for new and expensive supplies, the buyer will more readily fill the requisition than he would if it came from a man who was continually ordering unnecessary articles and attempting to install expensive systems without any preliminary test of their efficiency. In rejecting a requisition it must be done in a manner calculated to produce the least friction and unpleasantness, and in the performance of this delicate task a knowledge of the men with whom he is dealing is a valuable asset for the purchasing agent."

**51. Natural aptitude.**—As in selling, so also in purchasing, some are naturally more gifted than others, but even the amateur or casual buyer can buy to better advantage than he usually does or tries.

<sup>1</sup> "It is to a great extent a matter of opinion as to whether what is commonly termed 'the buying instinct' may be attained or whether it is inherent, a knack, so to speak, existing in the person himself. This is best answered by the fact that buyers holding the most responsible positions throughout the country are there because they have used scientific methods in purchasing. They have not relied on inherent knowledge, but on that which is acquired. Different degrees of capability naturally exist in different persons, but positions of importance in the buying world have not been attained as the culmination of a period of hammering down prices by bidding lower than the one asked, but by a knowledge of values judiciously applied."

Whoever keeps uppermost in mind that he does not have to take the first article offered, pay the first price or meet the first terms named, can accomplish much. Add to this plenty of thought, a little ingenuity and experience and the trick is turned. Natural aptitude is only one, although a desirable, qualification.

Aptitude and instinct are so closely related that the following quotation is not out of place:

<sup>1</sup> "It is one of the yet unexplainable things of life, that in many trades a large number of operations are governed by instinct.

"For instance, there are few credit men who do not resort to instinct—intuition might be considered a better word—at times to determine whether to extend a man credit or not. While few buyers will admit that a 'hunch' ever governs their mental operations, yet it is undeniably true that at times it is necessary to trust to intuition as to whether to make a purchase or not. This intuitional faculty is generally correct only in the light of experience, from which the intuitional faculties can make deductions later to be known as a 'hunch'."

<sup>1</sup> A. W. Shaw Company.



In the author's judgment, the theory which has been advanced in explanation of instinct or intuition will explain why a buyer's "hunch" so often works out satisfactorily. For that matter, it explains the basis of aptitude as well and why those who, after years of effort in any field, emerge successful, are then said to have possessed "natural aptitude."

Judgment is based on experience. Action is based on judgment. It may be our judgment that it is advisable to take a certain action because in the light of our experience this, that and the other thing has happened, or will happen. We can put down in logical order our reasons, all of which will be found to be based on experience. If the reasons appeal to us and are systematically arranged, we say it sounds "logical." In such a case we acted on "reason" and not on "intuition." We are constantly, however, going through a multitude of experiences every day of our lives. All of these experiences our brains record but some are not stamped deeply enough to allow them to be recalled at will. Their impressions are there notwithstanding. Now then we get a "hunch" that a certain other action is advisable. We cannot put down in logical order enough reasons to present to a third party and have him, who has had other experiences, say the action looks to him to be based on anything sound. Neither can we put our own fingers on the definite experiences on which we predicate our desire to act. Yet those experiences, an infinite number of small things on which our judgment is based, really are there, and our desire for action is based on our judgment.

If experience does give us judgment and knowledge, and if we can, by study, appropriate for ourselves other's experiences, then the theory does not hold that natural aptitude is the one essential to success.

**52. The buyer and the salesman compared.**—It is a curious fact that salesmen as a class are of the care-free, jovial, prosperous type, whereas the purchasing agents usually look worried, are likely to be skeptical and do not have the dress and air of the salesman. The reason for this is plain. The salesman must appear well in order to gain audiences with those who hold the purse strings. His house, realizing that "prosperity begets orders," insists that its representatives appear prosperous, for it is only through the salesman that many buyers know the house with which they deal. The salesman must make himself agree-

able if he would make friends with the buyer, though it must be admitted that many salesmen overdo this. In short, the salesman has evolved through the efforts of selling establishments to take full advantage of the personal equation. The purchasing agent, on the other hand, usually feels that he is more independent, that it is up to the salesman to make the advances and that his purchasing power rather than his personal attractiveness are what appeals to the seller. Further, the average company does not look on the buying end of its business as being so vital as the selling department and therefore salesmen as a class are better paid than purchasing agents. However, with the advance in scientific methods of merchandising, the difference in purchasing agents and salesmen is being leveled. The modern salesman relies more and more on logic and less and less on ingratiating manners. The ubiquitous cigar is about all that is left of the wine dinners of yesterday. With the exception of a few lines of trade, graft, even petty graft, has almost entirely disappeared. In this respect, the United States stands in good relief to other countries, where business is done as was customary here a generation ago. The contrast with South America in this respect is particularly striking.

It is also worthy of note that there are many associations and conventions of salesmen from which they derive much good. This is probably due to the fact that salesmen are outside men, and come in contact with each other constantly. They meet in the railway trains, in the outer offices of the buyers and in the street. It is but natural that they should fraternize, exchange views, and finally associate formally. On the other hand, the purchasing agent spends his day in the office and rarely meets another purchasing agent. He has not realized sufficiently the good that such intercourse would bring him else he would find a means of overcoming the disadvantages of isolation.

**53. Summary.**—In listing the attributes of "the perfect purchasing agent" we note that, aside from knowledge, the same simple virtues are desirable in this as in any other profession. It is to be remembered, though, that broad-mindedness and tactfulness are the qualities most lacking and yet most needful. Natural aptitude is an aid rather than the one thing to be considered, and aptitude can be developed by experience even if not possessed naturally. Finally, the purchaser should study the salesman as thoroughly as the salesman studies him.

## CHAPTER VII

### STRATEGY

**54. What is meant by strategy and its importance.**—In every profession, we find employed a certain indefinable thing which might be called cunning, acumen, acuteness or shrewdness, the possession of which is necessary in meeting the problems presented. The use of these qualities can best be termed strategy. So it is in purchasing. The degree in which this quality is possessed may very well distinguish the able purchaser from the mediocre one. The man who possesses astuteness is often more than a match for the man who lacks this characteristic, however complete may be his grasp of every other essential. Nothing so develops one's strategic ability as matching wits with the salesman whose stock in trade often consists of that very trait. Strategy cannot be taught, but it can be developed. To those who are artful, this chapter will be of benefit in pointing out some tactics which have been employed as well as in suggesting others. To those who are artless, this chapter may at least disclose the means whereby they have been confounded, and show them the need for their development in this direction.

**55. Sharp practice.**—It is not easy to draw the line where strategy of a commendable character leaves off and sharp practice begins. Sharp practice technically comes under the head of strategy but, neither practically nor morally, can the former be commended. Cases may arise where one is confronted by sharp practice on the part of the seller and where negotiations have reached such a point that they cannot be broken off, thereby leading the buyer to argue with himself that he must resort to the same weapons for protection. These cases are rare, however, and the buyer will do well to avoid further dealings with the concern which employs questionable means. Sharp practice as a policy does not pay. It destroys that confidence which is the cornerstone of all successful and enduring business.

While sharp practice cannot be commended in practice, both



the buyer and the seller must recognize its existence and guard against its pitfalls. Some of the forms in which such pitfalls occur have been added, therefore, for the sake of completeness, and it should be understood that they do not carry the stamp of the author's approval. As in so many other matters with which the business man deals, conscience rather than rules or law must be the guide.

**56. Splitting the difference.**—One of the oldest means which people have adopted to reach an agreement on price, terms or what not is to "split the difference." Its application is universal for the reason that it is human nature not to wish to be considered unfair. When Thomas asks \$250 for a horse and states that he can prove that he paid the same himself a short while ago, whereas Richard will not pay more than \$200—simply cannot afford more—how natural for Thomas to say: "Well, I want to do the square thing by you! I am really losing money, but I can understand your position! You can have the beast for \$225." How natural for Richard to say: "Well, if I pay your price I will have to do with my last year's suit! I really shouldn't do it but I will meet you half way." This undoubtedly was the fair solution, provided Thomas did pay \$250 a short while ago, and provided also he did not overpay when he did so and, further, if Richard really would have to go without that suit if he paid the extra \$25. The chances are, however, that Richard did not believe Thomas any more than Thomas believed Richard. But the chances are also that Richard really wanted that horse badly enough to pay \$250 and that Thomas wanted to be rid of him badly enough to accept \$200 flat. So each went away with the pleasant feeling that he had secured \$25 "velvet."

People usually ask more than they expect to receive and usually offer less than they expect to pay. Therefore, it is generally better to let the other person name the first figure. For example, if Richard expected to pay \$250, it would have been a mistake for him to open negotiations by saying: "I'll give \$225 for that horse." The chances are that Thomas would then have asked \$275, and Richard would have ended by paying \$250. Even supposing Thomas to have asked \$250 as in the first case, it is likely that the matter would then have been split at \$240 and Richard would have paid more than he did in the first hypothesis by letting Thomas lead off.

To know approximately what is in the other man's mind, by letting him speak first is, in ninety-nine cases out of one hundred, to have the advantage. This advantage is usually with the purchaser who asks the price. The seller then not only is ignorant of what the buyer is willing to pay, but he also does not know what proposition another seller has made.

<sup>1</sup> "The business world, particularly the buying world, is full of finesse. It is always good business to keep hidden at times the very thing that the other man wants to know."

It might be argued that it would always be the best policy to offer a very much lower price than one is really willing to pay. This is not true. To offer an absurdly small amount is to betray and make too apparent the fact that one is only "fishing." It may have the effect of causing the seller to refuse to come down at all, since he feels that the buyer is not in earnest or that he is not a keen trader and that he eventually will come to the high figure. The buyer who offers a ridiculously low price shows too plainly that he is not playing square whereas the whole basis of splitting prices is "to be fair" or to "appear fair." Again, it is foolish to offer a price that is entirely below the bounds which the other can meet and not lose money. The same idea has been expressed by Mr. M. J. Clifford in the *Business Man's Library*, thus:

"One class of close buyers uses the following method: A certain line of goods is offered, for instance, at 27½ cts. per yard, the market being firm as regards that particular line. This buyer regards price merely as something to be lowered—a challenge as it were—and in conformity to his established practice of buying, offers less. This price may be very considerable, but in the case mentioned would probably be from ½ ct. to 1½ cts. below the price asked. These tactics may or may not win, for if the salesman knows he is in contact with a close buyer he has raised his price accordingly to suit his man. On the other hand, should the price be a bottom one, the buyer has simply tried to call a bluff that did not exist. The probabilities, however, are generally against the buyer. He will lose more times than he will win."

"The 'offer system,' as this method has been designated, hardly entitles the buyer to the designation 'close' or 'shrewd.' Not only is it unscientific, but one who habitually beats down the price offered him

<sup>1</sup> A. W. Shaw Company.

is liable to acquire a reputation for so doing and is always met by a price that may be scaled down to meet his requirements."

Sometimes the difference is split twice. When Thomas made the "generous" offer of \$225, Richard, if he had been a better trader, would have said: "I appreciate your offer. I know I am missing a bargain, but I simply cannot meet my rent and pay that much. I hope, Thomas, that you will not be offended by my not accepting, but there is no good of my telling you I will take the animal when I haven't the money. I could scrape together \$200; might even at a pinch sell one of my hogs and raise \$210, but \$225—I simply can't do it!" Who doubts what Thomas would have said?

Had Richard really known that Thomas was anxious to sell that horse, Richard would have made the first offer \$200. We already know Thomas' reply. Richard would have then said, "Couldn't think of it. Not for a moment; and remember, when I say \$200, I am offering more than I would ordinarily pay. I thought I could get your horse at once. Now I must go to town in the morning to buy one. Think it over to-night and let me know if you change your mind"—this as he turns on his heel and walks away. Very likely, Thomas would have accepted by telephone that very night. Thus we see that Richard, on an equal footing with Thomas, paid \$225; Richard, as the superior trader, paid \$210, and Richard, possessed of a knowledge that Thomas was anxious to sell, paid \$200.

**57. Utilizing the emotions.**—All of the emotions may be called into play in bargaining for price. One of these is shame. Thus, when Richard offered to split the difference with Thomas between the \$225 and \$200, Thomas might have said: "I am astonished that you would wrangle over a matter of \$15. Here I am, offering to throw off \$25 for the sake of our friendship and to help you out, and you try to squeeze \$15 out of me. What would your other friends think if I were to tell them what close fists you have?" Very few men will allow themselves to appear small when the matter is put to them in that light.

A second emotion often used to good advantage is anger. Most buyers and sellers like to push the transaction as far in their own favor as they can. A display of impatient anger is often a signal to the other party that the limit has been reached. If the seller is really anxious to book an order and is simply nibbling for more money, he will often stop these tactics for



fear of throwing the whole matter open should the buyer "get his back up." A case of this kind occurred when a buyer, who had received bids for a lot of granite, decided to give it to a certain firm that was already, by the way, a low bidder. Its figure came to about \$20,000, and the buyer estimated in his own mind that there must be a profit of about \$3,000 in the job. It so happened that an additional quantity of the same material was to be ordered soon after and that whoever obtained the first order would in all likelihood stand the best chance of securing the subsequent orders, because granite of the same appearance and from the same quarry would be preferable. Hence, the buyer telegraphed the low bidder that he could have the order for \$18,000 estimating that a profit of \$1,000 would be left for the seller. The seller wired back that \$18,000 could not be considered and that \$19,000 was rock bottom. The buyer replied that he was sorry but \$18,000 was the best he could offer and that he would have to place the order elsewhere. Then the seller called up on the long distance telephone and asked to have the matter held open two days. The buyer granted but one day. At the end of this day, the seller wired that if the matter could be held open one more day, he would call in person and offer something "good." Of course, the buyer agreed. When the seller arrived, he said that his president had authorized him to close at \$18,750. This was the buyer's cue. He first looked incredulous, then injured, then mad. He paced up and down a few moments and then turned on the seller. "I am surprised, sir, that you would take up my time or that you would waste your own, coming to me with any such figure. I told you distinctly that \$18,000 was my top figure. Here you have been imposing on me, asking me to hold this matter open for some days under the impression that you would be able to meet me. All the time you have known the importance of getting this material under way and yet, after going out of my way to accommodate you, you come to me with an offer that is practically no better than the one you had already submitted. You say your president authorized you to take \$18,750. I think you are right and I believe further that he told you to take \$18,000 if you couldn't get more. Isn't that right?" It was, and the salesman admitted it and took the order.

It might be argued that the salesman got the best of the bargain after all, inasmuch as he would be in a position to name

his own price on the subsequent orders. This is not true for two reasons: First, the salesman would have had the "inside track" on the subsequent orders regardless of the price he got on the first; second, the buyer would most likely be able to use the price of the first order as a basis of beginning negotiations on the later orders, ultimately paying the same and perhaps less.

Pride and anger are not the only human weaknesses that can be called to the assistance of the buyer. All of the foibles and failings can be worked on. The seller knows this, and the buyer must remember that he is often subjected to attack with these weapons. The capable buyer will endeavor to locate and utilize to his own account the weakness of the seller, while knowing and guarding against yielding to his own.

**58. Including extras.**—After a transaction has come to a point where the parties are agreed as to price, the buyer can often go still further, but in the opposite direction. In other words, instead of getting a still further reduction in price, he can get more for the same money. This is sometimes done by leaving out of the data on which the bidders prepare their figures, some more or less important item which apparently does not change the character of the article. To illustrate, having forced down the price on a lot of steel work to the lowest price, the buyer would say: "Well, I will meet your revised figure on one consideration. I find we will require two coats of double X paint on this structure. If you will agree to include this, we will call the affair settled." At this point in the negotiations a few barrels of paint will not look as large to the seller, as the equivalent dollars.

Another way to accomplish the same thing, which while legal is undoubtedly rather sharp, is to include "sleepers." A "sleeper" is an important requirement so placed in the specifications as to be unnoticed by the bidder. Specifications are often voluminous, and while it is the duty of the bidder to acquaint himself with them fully, it is often physically impossible for him to do so. The wording can be so arranged as virtually to hide important details. A synopsis of the specifications put on their face may lead the bidder to assume that the synopsis covers everything. He may, therefore, neglect to read the full requirements although these are given to him. While the inclusion of sleepers is resorted to occasionally, such practice will not pay in the long run.

**59. Quick closing.**—One of the most effective means at the disposal of the buyer is that of quick closing. An offer of say \$1,000 "if accepted instanter," has a powerful effect on the seller, especially if it is coupled with the statement that "if not accepted we will take bids all around the line and to-morrow our best offer will be \$900." If a buyer knows what a thing is worth and can come out flatfooted with an offer subject to immediate acceptance, and also tell the seller that the offer is made to him alone and that if he does not wish the order, the doors of competition will be opened, the chances are the seller will try to keep the doors shut. The seller can be impressed with the fact that since time is important, the price offered is unusually attractive and that he has been singled out for the order due to his singular ability to do quick work, etc. Everyone likes to feel that he is "on the inside" and he hates to see anyone else get inside with him. Here pride gets in its work.

The whole theory of this method is to know one's ground and then rush the seller off his feet.

**60. Unbalanced orders.**—One of the methods sometimes tried by salesmen to secure an order is to submit an unbalanced bid. We will say that a number of items are to be figured on at unit prices and that the quantities of each article vary considerably, there being a large number of items of which a small quantity is required and a few items of which a large quantity is required. If the salesman submits very low figures, perhaps less than cost on those items of which a small quantity is required, and high figures on the few items of which large quantities are required, his proposition will look very attractive. Yet, when the lump sum for the whole order is computed, the proposition may not be as favorable as it seems on its face. This is a favorite method among contractors and is sometimes used in bidding on construction work. For example, we will say the following items are sent out for figures:

Item	1	1,000 cu. yd. dry excavation.
	2	2,000 cu. yd. wet excavation.
	3	500 cu. yd. rock excavation.
	4	100 tons reinforcement.
	5	10,000 ft. B.M. timber.
	6	5,000 cu. yd. concrete.
	7	5,000 cu. yd. pneumatic work (under compressed air).



Suppose two bids are received as follows from *A* and *B*:

Item	<i>A</i>	<i>B</i>	<i>A</i>	<i>B</i>
	Unit bid	Unit bid	Extended	Extended
1	\$0.75	0.70	750.00	700.00
2	2.00	1.75	4,000.00	3,500.00
3	4.00	3.50	2,000.00	1,750.00
4	60.00	60.00	6,000.00	6,000.00
5	30.00	29.00	300.00	290.00
6	6.50	6.25	32,500.00	31,250.00
7	30.00	30.50	150,000.00	152,500.00
Total.....			\$195,550.00	\$195,990.00

It will be seen that *B* is lowest on five items out of seven and is equal to *A* in one item so that *A* is low on only one item out of seven. If the buyer does not take the trouble to calculate the total he may believe that *B* has the more favorable proposition, whereas *A*'s is more favorable in reality. Since there would be little chance that the buyer would not extend his figures, unbalanced bids are usually presented in such form that not only the unit prices will appear lowest, but the totals also. In such cases, the one who puts in the unbalanced bid will have or think he has information regarding the quantities, not possessed by his competitors. Thus, suppose *B* was positive that before the work was finished, item 7 would be doubled and that item 6 would be eliminated entirely. The figures might then come in as follows:

Item	Name	Quantity	Unit bid		Extended bid	
			<i>A</i>	<i>B</i>	<i>A</i>	<i>B</i>
1	Dry excavation....	1,000 yd.	0.75	0.72	750	720
2	Wet excavation...	2,000 yd.	2.00	1.90	4,000	3,800
3	Rock excavation.	5,000 yd.	4.00	3.50	2,000	1,750
4	Reinforcing.....	100 tons	60.00	55.00	6,000	5,500
5	Timber.....	10,000 ft.	30.00	28.00	300	280
6	Concrete.....	5,000 yd.	6.50	4.90	32,500	24,500
7	Pneumatic.....	5,000 yd.	30.00	31.00	150,000	155,000
					\$195,550	\$191,550

In this case, *B* would stand a very good chance of securing the order as the figures look more attractive than those submitted by *A*, but if *B* is correct in assuming that he would not be asked to do item 6 and that item 7 would be doubled, the comparison would then be:

Item	Name	Quantity	Unit bid		Extended bid	
			<i>A</i>	<i>B</i>	<i>A</i>	<i>B</i>
1	Dry excavation....	1,000 yd.	0.75	0.72	750	720
2	Wet excavation...	2,000 yd.	3.00	1.90	4,000	3,800
3	Rock excavation.	500 yd.	4.00	3.50	2,000	1,750
4	Reinforcing.....	100 tons	60.00	55.00	6,000	5,500
5	Timber.....	10,000 ft.	30.00	28.00	300	280
6	Concrete.....		6.50	4.90	.....	.....
7	Pneumatic.....	10,000 yd.	30.00	31.00	300,000	310,000
Total	.....	.....	.....	.....	\$313,055	\$322,050

Like all games, this is one that both parties can play. The buyer may lead one of the bidders to believe that the quantities may be changed in his favor whereas they may in reality be changed in such a way that the items in which there is little or no profit are largely increased and the items in which there is a fair profit are substantially diminished. Of course, this is double dealing, whether it is indulged in by the buyer or the seller.

**61. Blanket orders in their relation to shifting prices.**—One of the fairest forms of the blanket order, fairest to both buyer and seller, is that which covers the buyer's entire requirements for a stated period at prices dependent on the market price when the goods are requisitioned, but varying also as to quantity.

Thus the A.B.C. Company contracts to buy all of its reinforcing bars from the X.Y.Z. Company during the year 191-. The X.Y.Z. Company agrees to ship in — days after the receipt of any requisition, so to do, from the A.B.C. X.Y.Z. further agrees to bill A.B.C. as per the following schedule of prices:

- First 100 tons requisitioned, market price at date of requisition
- Second 100 tons requisitioned, 1 per cent. off market.
- Third 100 tons requisitioned, 2 per cent. off market.
- Fourth 100 tons requisitioned, 5 per cent. off market.
- All over 400 tons requisitioned, 5 per cent. off market.

The prices quoted in *Iron Age*, F.O.B. Pittsburg, will be used in rendering invoices. All freight shall be paid by A.B.C. Company. All invoices shall be 2 per cent. ten days, thirty days net. Such other terms as fit the specific case."

Some sellers are willing to take the gamble on the market, especially if they are able to stock the material. They figure to cover the order at a favorable price and to hold for requisition by the buyer. This form is more favorable to the buyer and would contain the following essentials:

"The A.B.C. Company contracts to buy all of its requirements in reinforcing bars of the X.Y.Z. Company during the year ending ———, 191—. The X.Y.Z. Company agrees to make shipment within — days after receipt of requisition of, so to do, from the buyer, and the X.Y.Z. Company further agrees to invoice all bars at \$1.40 base, F.O.B. Pittsburg, freight to be paid by buyer. X.Y.Z. Company further agrees that, the above-mentioned price being the market quotation on the date of the acceptance of this order, it will, in the event that the market price drops below \$1.40 during the life of this contract, give the buyer the benefit of any such drop in the market. On the other hand, the X.Y.Z. Company in consideration of \$1, the receipt of which is hereby acknowledged, and on account of other valuable considerations agrees that in the event of the market price being more than \$1.40 base, F.O.B. Pittsburg, during the life of this contract, it will not charge the buyer more than the above-mentioned price. The invoices shall be at 2 per cent. ten days, thirty days net, etc., etc."

Another variation of the foregoing order would be that wherein a flat price, regardless of the market price but varying with the quantity requisitioned would be stated, as follows:

"The A.B.C. Company agrees to buy all of its requirements of reinforcing bars from the X.Y.Z. Company and the X.Y.Z. Company agrees to sell reinforcing bars to the A.B.C. Company for a term of ——— months from date, at the following prices:

First	100 tons (2,000 lb. per ton)	\$1.50 per 100 lb. F.O.B. Pittsburg.
Second	100 tons (2,000 lb. per ton)	\$1.45 per 100 lb. F.O.B. Pittsburg.
Third	100 tons (2,000 lb. per ton)	\$1.40 per 100 lb. F.O.B. Pittsburg.
Fourth	100 tons (2,000 lb. per ton)	\$1.35 per 100 lb. F.O.B. Pittsburg.
All over	400	\$1.35 per 100 lb. F.O.B. Pittsburg.

Other terms to suit the specific case."

In some lines and under some circumstances, the seller is unwilling to take a blanket order "for the entire requirements"



of the buyer without some guarantee as to what these requirements will be. An order of this kind would contain such provisions as the following:

"The A.B.C. Company hereby agrees to buy from the X.Y.Z. Company and the X.Y.Z. Company agrees to sell to the A.B.C. Company the entire requirements of the A.B.C. Company in reinforcing bars during the year ending ———, 191—, except as follows. The A.B.C. Company agrees that it will requisition under this order not less than 300 tons (2,000 lb. per ton) and that it will not requisition more than 1,000 tons during the period above mentioned. The X.Y.Z. Company agrees that it will invoice the above-mentioned bars as per the following schedule of prices and terms:

First 100 tons	\$1.50 per 100 lb. F.O.B. Pittsburg.
Second 100 tons	\$1.45 per 100 lb. F.O.B. Pittsburg.
etc., etc."	

Blanket orders, if properly accepted by the seller, become contracts which are just as binding as orders for specific things at specific times of delivery. Much care must be taken in the drawing of these agreements to see that the intent of both parties is clearly stated and the instrument properly executed. Many blanket orders are repudiated by either the buyer or seller when not properly drawn. The temptation for the seller to repudiate an order of this sort comes when the market so changes as to wipe out his profit. The temptation comes to the buyer when the market drops so that he could do better with another seller or where his anticipated requirements do not materialize. The chapter on the legal aspect of buying (Chapter VIII) will be of service in properly drawing and accepting a blanket order.

A great deal of strategy may be shown in placing blanket orders. Here, particularly, knowledge of market prices is very valuable. Many purchasers with a keen judgment on the tendency of prices can place advantageous blanket orders at times when the market is "off." They can display the same good judgment by not placing blanket orders when the market is high unless provision for a drop is contained in the agreement.

**62. Evading the dealer's protection.**—In many lines of manufacture, the manufacturer elects to market his goods through a middleman, called by such names as dealer, jobber, agent or merchant. As an inducement for the middleman to handle and push the sale of his goods, the manufacturer usually

agrees to sell to him on a lower scale of prices than to the consumer; to wit, he agrees to "protect the dealer." All manufacturers do not market their goods in this way but when they lack sufficient resources to establish their own offices or stores in all important localities, this method is often of advantage to them in widening their sales area.

The protection afforded to dealers has been abused in many specific instances by manufacturer, dealer and consumer alike. The manufacturer will often sell to the consumer at as low a price as he has agreed to sell to the dealer even though this be counter to his arrangement with the dealer. This has frequently resulted in an attempt by the consumer to deal with the manufacturer direct in order to avoid paying the dealer's profit. Consumers have even represented themselves as dealers and have asked for prices from the manufacturer "for resale," hoping to get the "inside price." It sometimes occurs then that the manufacturer, meaning to be honest with the dealer, will quote to the consumer what purports to be a "resale" price but what is in reality the regular consumer's price. In this event, if the order is booked, the dealer will receive his commission just as though he had made the sale. The more usual way is for the manufacturer to refer the inquiry to the dealer. It need hardly be added that the manufacturer who knowingly breaks his agreement and quotes a dealer's price to a consumer, no less than the consumer who represents himself to be a dealer in order to get a special price, is guilty of deceit. Yet the prevalence of this form of hypocrisy is greater than is generally known. The only extenuating circumstances that can possibly be urged are, the great tendency in all lines toward direct dealings, which tendency is economic and stronger than contracts, and the resulting keen competition between manufacturers.

In many cases the dealer, in his anxiety to book an order, will quote to the consumer a lower price than his agreement with the manufacturer permits; briefly, he cuts the price. Legally, as determined by recent court decisions, the manufacturer probably cannot enforce on the dealer a fixed selling price to the consumer. The dealer, having bought and paid for the goods, has complete title in them and can dispose of them for what he wishes. However, no one would highly regard a merchant who had broken a pledge to his principal, even though he remained within the law.

**63. Summary.**—The strategist is a student of human nature. The application of strategy in buying, as well as in selling, involves a knowledge of human nature and the ability to portray. The buyer must study the man with whom he deals, seek out his weaknesses, discern what is in his mind, learn the policies of the house he represents and act or portray his own part accordingly. One man can be flattered; another can be bullied. One man can be won by an appeal to his sense of fairness; whereas another who is always looking for an opportunity to get the better of the buyer can be made to think he is succeeding and so can be made to fall into his own trap. It is no less essential to know the failings of the seller than it is to conceal one's own desires, weaknesses and thoughts.



## CHAPTER VIII

### SOME OF THE LEGAL ASPECTS OF PURCHASING

BY WILLIAM W. TAYLOR

**64. Object of this chapter.**—In considering the legal phase of the art of purchasing, all that is intended is a simple and brief discussion of some of the elementary legal principles involved in arranging for a purchase of goods. These principles will be treated, so far as they are susceptible of being so treated, from a practical business viewpoint, so that the layman buyer may appreciate the importance of orderly procedure and of the exercise of intelligent care in effectively arranging for his contracts and for facilitating the conduct of his business. Careful adherence to a few simple rules by the intelligent buyer in making his contracts will render much less probable unnecessary and expensive lawsuits. This chapter therefore will not attempt to deal with the various legal refinements and theories of the law of buying and selling personal property which have been evolved in all kinds of litigated situations during the course of many years and in many jurisdictions. Nor will the chapter discuss the legal remedies of the purchaser in the event of misunderstandings and disputes with the seller, as these are matters peculiarly within the domain of the lawyer. What is of primary interest and concern to the buyer is an observance of the essential rules with respect to the *formation* of the contract to purchase so that the terms thereof may be clear, exact and comprehensive and so that in case of dispute, the rights of the buyer will be less likely to be defeated.

**65. What constitutes a contract.**—In this view of the matter, what are some of the fundamental rules and principles of the contract to purchase personal property which through custom and the recognition of years have obtained the force and sanction of law? It is obvious, of course, that in making a purchase, two parties are involved, *i.e.*, the buyer and the seller and that before the purchase can be consummated, these two parties must reach an agreement. This all-important agreement is in law called the

*contract* upon which all their future relations with reference to the transaction are based. The generally accepted legal test as to whether a contract has been made or not depends upon whether one of the parties has made an offer to sell or buy on certain terms, which has been accepted by the other party. The question of determining whether there exists such an offer and acceptance resolves itself into an inquiry as to whether there *appears* to have been "a meeting of the minds" of the buyer and seller, that is to say, have the buyer and seller *apparently* agreed one with the other to buy and sell certain definite articles upon mutually understood terms and conditions. In determining whether this state of mind apparently exists between the buyer and the seller, we have to consider and examine certain factors which we call evidence. This evidence may consist solely of conversations between the buyer and seller in which case (if there appears to have been an agreement), we call the contract a verbal one. It may on the other hand consist of correspondence which has passed between them upon which the law can base a contract; it may consist in the conduct of the respective parties from which the law will imply or infer a contract; it may consist of a formal written document which is literally the contract itself; or, it may consist of a combination of these various elements. We see therefore the relatively high importance of all conversations, conduct, correspondence and transactions by and between the buyer and the seller, inasmuch as they all constitute evidence as to what the parties apparently intended to do and therefore as to what in law they will be deemed to have actually contracted to do and must consequently carry out. It behooves the buyer therefore to be careful and exact in all his dealings and negotiations with the seller (and in the language which he employs) leading up to the making of the contract of purchase. And since this matter of an offer and an acceptance thereof is in law the essential element of the contract, it is important that the purchaser for his part conduct the negotiations with the seller with some definite understanding as to what an offer by either himself or the seller consists of and as to what in law is contemplated by an acceptance of such an offer.

The purchaser should clearly distinguish in his dealings with the seller between definite proposals or offers, the acceptance of which would constitute a contract, and transactions leading up to the making of a definite offer. For instance, if the pur-

chaser wishes to obtain bids, estimates or quotations on a purchase of goods which he has in mind, he should be careful to frame his request accordingly so that it will be clear that he himself is not making an offer to buy but is asking that an offer to sell be made to him. And when receiving a quotation from the seller, the buyer should carefully scrutinize the form of the same so as to make sure that it is really a definite offer which has been submitted by the seller and not a tentative bid. If it takes the form of a definite offer to sell and the purchaser wishes to take advantage of the same, he should do so by promptly communicating his acceptance to the seller; otherwise by lapse of time or by the seller withdrawing his offer, the buyer may lose his chance of accepting the same. Another thing to be borne in mind is the effect of a modification made by one of the parties of the other's offer, that is to say, if the seller makes a definite offer to sell certain goods at a certain price and the buyer communicates an acceptance making, however, certain modifications to the offer, this does not constitute an acceptance of the same but on the contrary constitutes a new offer by the buyer which is subject to the seller's acceptance or rejection. The most practical suggestion which might be made with respect to obtaining exact and clear results is the use of standardized written forms of communication. The last chapter contains suggestions for such forms.

**66. Importance of reducing contracts to writing.**—We have now discussed in a general and very superficial way some of the fundamental elements which enter into the formation of the contract. We have seen that from a practical standpoint, that which is of primary importance are the negotiations, dealings, transactions and communications which take place and pass between the respective parties. As everything in the last analysis goes back and depends upon an interpretation of such matters, it is of vital importance that they be carried on in the clearest way possible. This being so, there can be no question as to the practical desirability and even necessity of written communications. While it is true that a great many contracts are originally made by word of mouth, it is an unfailing good rule to confirm the same in writing at the earliest convenient moment and before the period for executing the contract sets in. In this way many mistakes and misunderstandings are rectified at the very beginning and before either party has



changed his position as a result of what he thought was the understanding. The use, therefore, of standardized forms of letters, telegrams, etc., asking for quotations, accepting offers, giving orders, confirming purchases, etc., is of prime importance. From the buyer's standpoint it is of particular importance that he receives from the seller some writing formally incorporating the terms of the contract itself or confirming a contract which has already been made by word of mouth.

**67. Statutes of frauds.**—This matter of incorporating or fixing in writing the terms of the contract is not only of primary importance from a practical business point of view, so that the carrying out of the transaction may be facilitated and misunderstandings obviated, but under statutory enactment it is a matter of absolute legal necessity if the buyer would be in a position to hold the seller at law to the performance of the contract or for damages for a breach thereof. Such enactments are known as Statutes of Frauds and have been enacted in practically all jurisdictions. Such laws require contracts for the sale of personal property to be evidenced by some form of writing, consummation or action, before they can be proved or enforced in a court of law, in case of a litigated dispute. These statutes are designed to prevent a fraudulent claiming of a contract and the proving of the same by means of false oral testimony. As applied to contracts for the purchase and sale of goods, these statutes generally declare such contracts (involving a purchase price over a certain amount) to be unenforceable at law unless one of the following requirements has been complied with:

1. Some writing or memorandum must be signed by the party to be charged. From the standpoint of the buyer, this would mean that the seller would have to sign some memorandum or writing containing the bare essentials of the contract before the buyer could enforce the contract against him. It is generally held that any memorandum, letter, telegram, etc., is sufficient compliance with the statute.

2. Or a part payment of the purchase price by the buyer will render the contract susceptible of proof in a court of law and therefore enforceable.

3. Or the delivery to the buyer of part of the goods and the acceptance of them by the buyer will also take the contract out of the statute so that it can be proved and enforced.

The careful buyer who wants to be sure in case of a dispute

that he will be in a position to prove and enforce his contract at law should see that one of the foregoing requirements has been complied with. The best rule, of course, is to have the seller sign some writing containing the terms of the purchase.

**68. Modification of Contracts.**—In considering the very distinct and decided advantages and desirability of the written word over the spoken one in the making of the contract, the purchaser should bear in mind the rule of law that a written contract once made cannot in case of a dispute at law be changed or modified by some oral understanding between the parties. In other words, the law presumes that the terms of the contract are those that are written down and evidence that some change was thereafter made in the written terms by word of mouth will not be allowed. If, therefore, after making a contract to purchase which has been reduced to writing, the purchaser effects some change by oral arrangement, he should have it confirmed by reducing it to writing so as to make the change effectual at law in case of a dispute.

We have now seen (1) that the contract to purchase is based upon an offer and the acceptance thereof; (2) that whether there has been an offer and acceptance in law depends upon an examination and interpretation of the dealings, negotiations, letters, conduct, writings, etc., had between the parties, in order to ascertain whether the minds of the parties have apparently met; (3) that it is necessary to distinguish carefully between definite offers and mere estimates or tentative bids, and that an acceptance to be effectual must usually be prompt and made in the terms of the offer; and (4) that the best and legally necessary way to deal in order to reach the desired understanding is by written communication or by written confirmation of verbal understandings.

**69. Quantity and Quality Clauses in Contracts.**—We will now assume that the purchaser and seller have reached a point where they want to do business and enter into a contract by the actual making of an offer and acceptance. What are the essential terms of the contract for the buyer to keep in mind and see to it that they are incorporated in the contract?

One of the most important terms to the purchaser has to do with the goods themselves, that is to say, the amount of the goods to be purchased and their kind and description.

As to quantity. It is comparatively simple to state in so many words or figures the exact amount of the goods to be purchased.

The chief thing to be careful about if the goods are of such a character as to require a measurement by some unit, is to provide for a standard by which the exact amount may be ascertained.

As to the quality or the kind and description of the goods. Perhaps the most important term of the contract for the purchaser to consider is one that will best insure the actual delivery to him of just the kind of goods which he has intended to purchase and for which he is paying or in the event of such goods not being delivered such a term as will insure to him a remedy by recovery of money damages against the seller. In order to bring about this result under the contract, the purchaser cannot be too explicit and exact (if the absolute delivery of the article contracted for is essential to the success of his business) in setting forth a description of the goods and insisting that the contract contain a positive promise by the seller that goods of the description specified will actually be delivered. Such an undertaking by the seller has the force and effect of a warranty; and upon the failure of the seller to make good, the buyer can hold him for damages. The purchaser should clearly distinguish between the usual implied condition that the seller will deliver the goods of the kind and description contracted for or otherwise the buyer may reject the same, and the promissory condition by the seller whereunder the latter positively agrees to make an actual delivery of the goods specified. In the former case, in the event of the seller failing to deliver the proper goods, the buyer has no remedy against him for damages for any loss he has been put to in depending upon a delivery of the right goods but may simply reject the goods tendered. In the latter case, however, the buyer has an enforceable remedy for damages under the contract.

But the careful buyer will go even further in better insuring himself so as to obtain the proper goods or otherwise to obtain a remedy against the seller. This is by insisting that the seller *warrant* the goods purchased and to be delivered as being of such a kind and of such a quality (definitely describing the same) or as fit for a certain specified use. In order to avail himself of the advantage of such a warranty, the buyer in negotiating for his purchase should inform the seller in detail as to actually what kind of goods he wants to buy, and, if it is an article of a specialized character, as to the use to which he contemplates putting the



goods. The seller contracting to furnish the goods under these circumstances can be held strictly to the performance of the promise of such a warranty whether it be expressed or implied. The better plan, however, is to get the warranty of the seller definitely in writing.

There are other ways by means of which the buyer may insure himself of obtaining the goods that he wants or of having a definite remedy in the event of a failure of the seller to furnish them. For instance, the buyer may insist that the goods to be furnished will have to correspond with a certain sample which the seller has submitted; or he may stipulate in the contract (which is usual in the case of the installation of machinery, etc.) that the goods will have to be delivered and installed for a trial for a certain period to satisfy the buyer or measure up to a certain test which has been agreed upon in the contract.

**70. The passing of the title to the goods.**—It is of prime importance to the buyer to have a working knowledge of the conditions which affect a delivery to him of the goods, and under what circumstances title to the goods passes from the seller to the buyer and some of the legal consequences thereof. Generally speaking, if the goods are in a deliverable state, *i.e.*, ready, usable and set apart, title to the same may pass to the buyer even though the goods have not actually and physically been delivered into the latter's possession. Also, generally speaking, there is a delivery by the seller to the buyer when the former hands the goods to the carrier, *i.e.*, the railroad company or other transportation agency, to be taken to the buyer. The significance of this rule of law to the buyer lies in the fact that under these circumstances, in case the goods are lost or damaged during transportation, the loss falls upon the buyer even though the goods have not actually been delivered to him and he has never seen them. Under these circumstances, the buyer would have to pay the purchase price to the seller and present and collect his claim against the transportation agency. This result is the legal consequence of the rule of title to the goods passing to the buyer upon the delivery of the same by the seller to the carrier, especially when the carrier is designated by the buyer. The careful buyer, however, can avoid the legal consequences of this situation by stipulating in his contract that delivery of the goods is to be made to him at a particular place. In this case it is the duty of the seller to pay the transportation charges and physically

deliver the goods to the buyer at his destination; under these circumstances, the seller does not part with title to the goods and is responsible for any loss up to the time of actual delivery. The usual way by which the buyer specifies such an arrangement in the contract is a stipulation that the goods be delivered F.O.B. at his place of business or at the place where he wishes to use the goods. Another advantage which accrues to the buyer under this arrangement is an assurance that his legal right to inspect the goods before acceptance will be protected and not lost as is the case if delivery is made to him when the seller hands the goods over to the carrier and the goods are lost in transit.

**71. Time clauses in contracts.**—As to delivery generally, the contract should, of course, clearly specify the place and the time of delivery. If no time is specified the law presumes that delivery is to be made within a reasonable time after the order is given. As to what constitutes a reasonable time depends upon the nature and circumstances of each particular case. It is clear therefore that if time is important and to avoid uncertainty a definite time should be specified. It should also be clearly set forth as to whether a total delivery must be made at one time or whether it may be made in installments and, if so, the size and time of delivery of the various installments. Prompt delivery on a certain date is often a matter of much moment to the buyer. He either needs the goods at a certain time or he does not need them at all, or else if he does not receive them promptly, he may suffer a serious loss. If any of these situations are at all likely to arise, a careful buyer will have them in mind in making his contract and will see to it (1) that a definite time is fixed for the delivery of the goods; (2) that the contract contains a term that the time of delivery is “of the essence,” *i.e.*, that it is highly essential that the seller make delivery strictly on the contract date; and (3) that in the event of a failure to deliver on the contract date (or where it is apparent that the seller will not be able to deliver on the date specified), the buyer may cancel the contract and buy elsewhere. It is often useful to include in the contract a clause providing that if the goods are not delivered on time, the seller shall be liable to pay to the buyer a certain fixed amount, known as “liquidated damages.” In fixing such an amount, however, it is important to have it appear that it really is on account of damages which will be caused to the buyer by the failure to de-

liver and not a mere penalty to punish the seller. If the latter, it is not enforceable at law.

**72. Inspection of Goods.**—Generally speaking, the buyer has the right to inspect all goods upon their delivery before accepting them. It has been held, however, that the buyer has not this right prior to the payment of the purchase where the goods are sent C.O.D. The suggestion is made, therefore, that when goods are to be paid for upon delivery, the buyer provide in his contract that he shall have the right to inspect the goods before having to pay for the same. The buyer should be careful in exercising and availing himself of the right of inspection if he does not wish it thereafter urged that he waived any defects in the goods which an inspection of the same would have disclosed. After the buyer has inspected the goods and decided that he does not wish to accept them because of some defect in quantity, quality or what not, he should be extremely careful not to act in relation to the goods or to the seller in such a way as would be inconsistent with a rejection of the goods. On the contrary upon deciding to reject the goods, he should act promptly and unequivocally by notifying the seller that he will not accept the goods because of certain defects. In stating to the seller his objections to accepting the goods, he should be clear and comprehensive, as all unstated objections will be deemed to have been waived by him. The purchaser, however, may accept the goods which are nevertheless defective and still hold the seller for damages for breach of warranty, if he notifies the seller promptly as to his objections to the goods.

**73. Fixing price terms in a contract.**—We have discussed the terms of the contract as to exactly what kinds of goods are wanted, how the particular quality of the goods is to be tested or determined or otherwise insured by warranty, and how much of the goods are to be purchased. There is also the matter of fixing the price of the goods in the contract. Generally speaking, there are two ways of specifying the purchase price. One is by fixing the price per unit and reaching the total by multiplying the unit price by the number of units received and the other method is by simply stating a lump sum for the goods. These two methods adapt themselves to different kinds of purchases. Where the contract is based upon estimates of amounts which cannot be definitely ascertained until after the contract is carried out, it sometimes is much better to write the price on the unit



basis and thus get the benefit of any amount under the estimate, unless the purchaser is sure that the estimate will fall short of the actual requirements in which case stating a lump sum price might be more advantageous. From a legal standpoint, the matter of fixing the price is usually a simple matter. Having fixed the price in the contract, the terms as to how and when the same should be paid should be determined upon. This matter also from a legal standpoint offers no serious problem.

We have now discussed in a superficial manner the most essential points that the buyer should keep in mind when making his contract. An observance of the rules involved ought to obviate for the most part what otherwise are unnecessary disputes and, in case of a misunderstanding, leave the situation unclouded. When real trouble comes, or large and particularly important contracts are to be drawn, or when in doubt, the buyer should consult his lawyer. Professional aid and advice in the beginning costs much less and is far more satisfactory in results than having to pay for legal services in a litigation.

## CHAPTER IX

### DEPARTMENTAL ORGANIZATION

**74. Relation between size of business and size of the purchasing department.**—The organization of the purchasing department will depend on the size of the business. It would seem to need no demonstration that a corporation, whose purchases amount to one or two hundred thousand dollars annually, does not need much in the way of a purchasing department, whereas a corporation whose purchases amount to many millions annually must needs have a department organized with a very great deal of care. Nevertheless, it is not unusual to find in this age, when system and efficiency are constantly proclaimed, that there exist small businesses unable to operate with facility because of too much red tape, while large corporations are struggling along unaware that they have outgrown the organization which served their needs when they were small. The latter case is especially true of municipal corporations, always slow to adopt the improved methods which private corporations find necessary. Thus, we find that one of the largest cities of the country, with yearly purchases of supplies to the extent of approximately \$15,000,000 pays more for them than the average small corporation; buys articles for one of its departments when another department has in storage the same articles in greater quantities than it can use; pays one price in one part of the municipality and an entirely different price for the same thing in another; wastes large sums annually by not discounting bills although with plenty of money on hand to do so; and is only now awakening to the advisability of installing a common-sense plan which should have been adopted years ago.

**75. Relation between nature of business and size of the purchasing department.**—The organization of the purchasing department will depend not only on the amount of yearly purchases but on the nature of the business as well. One man can purchase a tremendous quantity if the purchases be made in large lots, or if the variety of articles purchased be small. One

man can purchase more from the dollar and cents standpoint if he deals, say, in coal only than the man who buys for a chain of five- and ten-cent stores. Not only can he buy more, but he will need less assistance in following up the orders after they are placed to see that they are shipped in time and come up to specifications. Detail takes time and where there is detail there are required more hands to take care of it properly. Therefore, it is not hard to see that the man who buys coal will require less help than he who buys an equal value of five- and ten-cent articles.

The buyer for a contracting company which maintains practically no storage facilities will require a purchasing department differing from that required by a corporation with a warehouse and which uses the same variety of articles year in and year out since the latter can judge its needs sufficiently in advance to stock them. The detail involved in one case may be the same as in the other, but the contractor usually wants deliveries promptly, and rush orders require more attention than routine orders. Hence a corporation with a large percentage of rush orders will require a larger purchasing organization than one which buys principally for stock though the annual value of their purchases be equal. Corporations which maintain storerooms often put them under the purchasing agent, who must organize accordingly. In the opinion of the author, however, the store or stock-room should be in charge of the accounting department where proper records can best be kept.

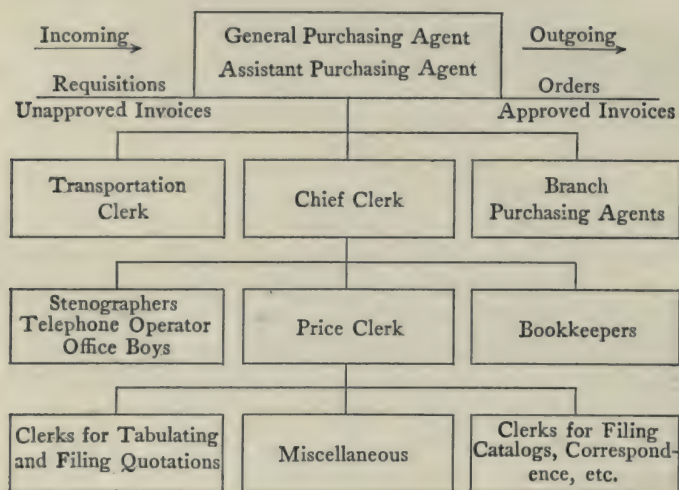
Some businesses have very marked rush and dull seasons, the buying for the entire year being done during one season. Obviously such a concern could not maintain an elaborate purchasing department during the dull season even though it were highly efficient during the busy period. In fact, any department of any business should be so designed that it can be expanded or contracted in conformity with the volume of business to be transacted. Failure to recognize this simple fact has been the cause of the bankruptcy of many corporations through excessive overhead expense.

Some businesses are so highly specialized that no one purchasing department can be organized to do all of the buying. Each purchase may require the skill and judgment of an expert. Knowledge of the salability of an article may be paramount. It may be impossible to impart to a central purchasing agent,



on paper, full information. In such cases each department of the business should do its own buying and there will be no need of a central purchasing department.

**76. A typical purchasing department.**—From the foregoing it is not hard to understand that it is impossible to lay out a purchasing department that will fit any business unless the nature and size of that business be known in advance, any more than one could design a light and power plant for a municipality without first knowing the size and nature of the municipality. However, it is possible to set down the lines of good standard practice and this may serve as the suggestive basis on which to work in any specific case.



**77. The general purchasing agent and his assistant.**—It will be the duty of the general purchasing agent to take care of the general management and supervision of his department. A large part of his time will be taken in the negotiation of large orders or contracts, particularly when they reach the closing stages. He will formulate the policies which his department is to pursue, seeing that it accords with the general policy of the corporation which he represents. He will represent his department in consultations with the executive heads of the other departments, such as the accounting department, auditing department, construction department, contract department, etc. All differences which arise between his department and another

will be for his consideration. He will often indicate to his chief clerk the sellers from whom he wishes bids on a given requisition, and he will keep a general oversight of the progress of orders of special importance, even after they are placed. In short, he will be the responsible head, mainspring and inspiration of his department.

The assistant purchasing agent will assist the general purchasing agent in whatever way he may be instructed. It is usual for the assistant purchasing agent to take as much of the detail off the shoulders of the general agent as practicable. He will usually examine all correspondence intended for his superior, bringing to his attention only such as is most important. In fact he will ordinarily handle all the routine matters so that his superior will have a large part of his time free for consultation. The assistant will sign many papers requiring the general purchasing agent's name; he will usually be in direct charge of the transportation clerk and the branch purchasing agents, if any, and he will be supreme in the absence or disability of the general purchasing agent.

**78. The chief clerk.**—The chief clerk will report to the general or assistant purchasing agent, and be responsible for all the clerical work of the purchasing department. In many cases he will determine who shall bid and send out the requests for tenders. Much of the routine correspondence relating to bids, prices, etc., will be handled by him either direct or in the general purchasing agent's name. He will be responsible for the discipline of the department. In the absence of both the general and assistant purchasing agents he will act as the executive of the department.

**79. The price clerk.**—The duties of the price clerk will consist primarily in maintaining accurate and up-to-date price records, checking invoices for material delivered to see that same are correct as to price (although this is often done in the accounting department), examining tabulated bids to see that the prices are in line with the market, and in general supervising the filing of all papers.

**80. The transportation clerk.**—It will be the duty of the transportation clerk to keep posted on freight rates, to examine freight charges and to prepare claims for overcharges. He will also watch orders after they are placed to see that they are shipped promptly and not delayed in transit. This is frequently

a very important service. The lack of a small article may delay the operation of a large number of men. In many corporations the cost of proper tracing is small compared to the possibility of loss due to the delay in the arrival of materials.

**81. Inspection, testing and storing of materials.**—The inspection and testing of materials either during manufacture or after delivery will usually be under the engineering department, and not the purchasing department. The purchasing agent, however, will furnish the engineering department with a copy of the order and specifications in order that the engineering department may know what it is entitled to demand of the manufacturer or seller. If, however, the business does not include an engineering department, the inspecting and testing should be under the purchasing department, in which case the inspector should report to the general or assistant purchasing agent direct. Instructions to inspectors will usually require that the superior who issues them has a considerable knowledge of the technical side of the business. While for that reason it is best to have inspections made by the engineering department, yet if there is no engineering department, the general purchasing agent will not wish to delegate this duty to his chief clerk who probably would not be as well equipped technically as himself.

The storehouses and the materials therein should be under the accounting department or else under whatever department will use the stores. The accounting department is the logical one to supervise stores, to keep a running inventory of supplies on hand, and to make requisition to the general purchasing agent when supplies need to be replenished. Under this plan, the construction or other department which requires the supplies from time to time, will requisition the accounting department for its needs. A more extended description of the working of the storehouse for large corporations is to be had from the extracts from the report on the "Proposed plan for the central purchase and distribution of supplies for the City of New York" given in Sec. 84.

**82. Miscellaneous clerks.**—The other clerks that may be needed and their respective duties can be seen from the diagram which is self-explanatory and needs no elaboration.

**83. Detailed routine from origin of requisition to receipt of goods.**—In order better to illustrate the workings of a purchasing department, a specific hypothetical case will be taken. We will



assume that by means of the perpetual inventory the stock clerk of a certain factory discovers that there are 10,000 of a certain type malleable casting on hand. We will assume that this is the minimum quantity which it had been decided to keep as a reserve stock. The stock clerk (assuming he reports to the accounting department) will immediately make requisition (in triplicate—one copy for himself and two for his superior) on the chief accountant for the same number as were received by him on the last order, say 10,000. The chief accountant will first see what his instructions are as regards stock, for he may have been advised that because business is poor, the stocks should be reduced 30 per cent. He will also note what other stocks of the same items are in other localities or warerooms. Further, he will see if the quantity used since the last requisition checks with the other reports of output or whether there seems to have been any leakage. He will also know if funds are available. Let us assume that the chief accountant who is in charge of stock decides to cut the order to 5,000 for one or more of the foregoing reasons. He therefore approves the requisition for "5,000 only" and passes it to the general purchasing agent's office, retaining one copy of this paper. (See page 117 for form of requisition.)

While theoretically the general purchasing agent receives this requisition, in practice it will be more likely to go to his assistant who will consult with the operating or designing department to make sure that there has been no change in design since the last order. If not, he will indicate on the back of the requisition who is to bid and send it to the chief clerk with instructions to take figures. The chief clerk will send out requests for tenders (see form, page 111), and these will be tabulated (see page 122) as soon as received. The price clerk will also indicate the prices paid on one or two previous orders, and send to the chief clerk who will choose the successful bidder. The order (see page 125) will then be made out and sent to the general purchasing agent for signature, together with the original requisition and tabulated bids.

Up to this time, the work has been routine. It is at this point that the purchasing agent should do his bargaining if he desires. How to do this we have already discussed under Strategy. When the general purchasing agent decides to let the order go through, he signs and returns all papers to the chief clerk. The next step

of the chief clerk is to make an entry in the "order register" (see page 134). The requisition number, bid sheet number, order number, date of order, name of firm receiving order, name of item and date shipment has been promised are all noted. The original order is then mailed, the duplicate going to the stock clerk while the triplicate is kept in the purchasing department. The other papers are filed. From here on the transportation clerk completes the order register record and tracer record (see page 134).

When the goods are received, the stock clerk sends a record of that fact to the purchasing department on the proper form (see page 159) attached to the duplicate copy of the order which he had received when the order was placed. When the invoice arrives the purchasing department has full information to check it from the order and the stock clerk's receiving ticket. The invoice after approval goes to the accounting department with the duplicate order and receiving ticket still attached. Now the accounting department can check it again, voucher it and pay when due.

**84. Proposed system for New York City.**—On March 15, 1913, the comptroller of the City of New York Hon. William Prendergast, submitted a report, prepared by W. Richmond Smith of the Bureau of Standardization, which contains so much valuable information on the subject of the purchase of supplies, their storage and distribution that the greater portion of the report is quoted herewith:

"In the past three years efforts have been made to apply modern systems and methods to many of the business activities of the City of New York. One of the first administrative acts of the present comptroller was to secure the appointment of a select committee of the Board of Estimate and Apportionment to devise a more efficient method for the purchase of supplies by the various city departments. Under his direction the Commission on Standardization was organized to investigate the conditions under which supplies are at present obtained, and to formulate specifications by which such supplies could be most advantageously purchased.

"For more than three years the staff of the Commission on Standardization has been engaged in a constructive investigation of the methods employed in the purchase and distribution of supplies by the various city departments. Records compiled and evidence secured during this investigation make it apparent that existing methods are absolutely archaic, grossly wasteful and hopelessly inefficient. The decentralized



system prescribed in the city charter, whereby the head of every department, bureau, board, commission and office under the city government is vested with the power to purchase supplies, makes impossible the application of the fundamental principles which underlie all modern effective systems for the purchase and distribution of supplies in use by the great railway and other large commercial corporations of the country.

"With these conditions in mind, acting under your instructions, a careful study has been made of some of the most successful systems of centralized purchase through a general purchasing head and distribution through a general storehouse. The desire was to avoid experiments and find a system in actual successful operation which could, with all its essential elements of control, be adapted to the requirements of the city. The plan submitted in this report is copied from the system of the Canadian Pacific Railway Company of Canada. It was selected rather than the system of any of the large commercial corporations in this country because the wide range of that company's purchases more nearly approximated the range of the supplies required by the City of New York.

"Access was had to every detail of the operation of a system by means of which approximately \$80,000,000 worth of supplies are purchased annually for every requirement of over 12,000 miles of railway with its sleeping and dining-car services, its transatlantic and transpacific steamship lines and its string of high-class hotels extending across the entire continent. Every dollar's worth of this tremendous amount of supplies and materials of all kinds is purchased by a general purchasing agent upon adequate specifications, with perfect control over quantities and prices upon requisitions before purchase. Through the medium of centrally located storehouses an equally complete control is maintained over storehouse stocks and distribution to thousands of delivery points extending across the continent from the Atlantic to the Pacific. By means of the simplest forms, requisitions are made and filled with amazing promptness without storehouse overstocks, largely because one of the aims of the system is to keep a two months' stock of materials and supplies in greatest demand on hand in storehouse all the time. Every form is designed to secure, in addition to contributing to the permanent records, the closest kind of control reports over the quantities and cost of supplies and materials for each function of the company's great enterprise. With only such changes as were necessary to adapt it to the city's requirements, this system and its forms are embodied in the plan herewith submitted for the City of New York.

"The plan proposed contemplates such amendments to the city charter as are necessary to permit of the creation of a Department of Purchase, the head of which shall be a Board of Purchase consisting of the mayor, the comptroller and the president of the Board of Aldermen.

"The appointment by this Board of a general purchasing agent,



who shall hold office during good behavior and shall be removable only upon proven charges, in whom will be vested the authority to purchase all supplies required by the various departments of the city government and prepare all vouchers for the payment thereof.

"The appointment by this Board of a general city storekeeper, who shall hold office during good behavior and shall be removable only upon proven charges, in whom will be vested control over the receipt and distribution of all supplies purchased for the various departments of the city government, except perishable supplies for daily delivery and coal, wood and forage.

"These officials shall have co-equal authority, each in the discharge of his particular functions, and both shall report to the board of purchase.

"The principal objection urged against the adoption by the city of a centralized purchase plan for supplies in the past has been that the vesting in a single official of the power to make all purchases would inevitably lead to gross and serious abuses of that power. The organization planned for the proposed Department of Purchase in the most complete possible manner removes that objection by giving to the heads of the eighteen largest purchasing departments in the city supervision over every act of the general purchasing agent. This feature is secured without expense by providing that the purchasing agent appointed by each one of the eighteen department heads shall be moved from his department to the office of the general purchasing agent, and there exercise a supervisory control over all supply requisitions emanating from his department. In addition, it is proposed that both the general purchasing agent and the general storekeeper shall be paid salaries large enough to attract the best men available, and that they shall have the greatest possible security of tenure in their positions. With these safeguards the city can secure the same measure of safety in the administration of the proposed Department of Purchase as is afforded by the system of any of the large commercial corporations.

"HOW SUPPLIES ARE PURCHASED BY THE CITY.—There are under the government of the City of New York 120 different departments, bureaus, boards, commissions and offices in the various heads of which is vested the power to purchase supplies. When the new municipal building in Park Row is fully occupied there will be, under one roof, no less than forty-eight city purchasing agents, or two to each occupied floor of the building, each buying practically the same line of supplies.

"In no two departments of the city are the methods and customs the same. There is no uniform system of making, recording and accounting for purchases. In this respect each department is a law unto itself. No central records are maintained showing the relative cost of supplies bought by different departments. Each proceeds in utter ignorance of what the others are doing. There is absolutely no

means of making the experience and knowledge acquired by one department of practical value to another. The larger the quantity purchased the lower the price, is one of the fundamental laws of supply and demand recognized in every modern purchasing system. Not only do the city's purchase methods ignore this law, in dividing the gross quantities of supplies needed into the smaller quantities required for over one hundred different departments, bureaus, boards, commissions and offices, but, in some of the largest purchasing departments, a further division is made of the quantities needed for bureaus and institutions within a single department. The result is, that the city is buying at retail millions of dollars' worth of supplies annually which it should purchase at wholesale prices, or even less. Tabulations prepared by the Commission on Standardization of Supplies show a remarkable variation between the prices paid, under publicly advertised contracts, for the same supplies by different departments, even upon uniform standard specifications.

"One of the greatest and most costly evils in the city's methods of purchasing supplies is the abuse of what is known as the open market order method. The city charter makes it obligatory upon all department heads to buy supplies upon publicly advertised contracts, but permits purchases, not exceeding \$1,000 at any one time, upon open market order without competition. It is obvious that this charger permission to procure supplies upon open market order was intended to cover only small emergency purchases. An analysis of the voucher records in the Department of Finance for the year 1909 shows that, of \$12,218,766 expended for supplies out of budget appropriations and special revenue bond funds in that year, no less than \$3,918,066 was expended upon open market orders, at least two-thirds of that amount without competition. As an evidence that the year 1909 was not exceptional in this regard, the same voucher records for 1911 show that, of \$13,023,800 expended for supplies out of budget appropriations and special revenue bond funds in that year, \$3,568,797 was expended upon open market orders, about the same proportion without competition. Careful comparison of the unit prices paid for supplies by the city upon publicly advertised contracts and upon open market purchases without competition shows that supplies bought upon open market orders cost about 25 per cent. more than the same supplies purchased upon contracts. The records indicate that whole lines of supplies are purchased upon open market order that could just as easily, and far more economically, be purchased under publicly advertised contracts. It is axiomatic with large commercial corporations that emergency purchases of supplies shall not exceed 3 per cent. of the entire expenditure for that purpose. That the emergency purchases of the City of New York exceed 30 per cent. of the whole is clear evidence that departments are continually in the habit of splitting supply orders so as to bring open



market order purchases within the legal limit of less than \$1,000 at any one time.

"THE PROPOSED CENTRAL PURCHASE PLAN.—The proposed plan contemplates the centralization of the purchase of all supplies required by every city department, bureau, board, commission and office under the city government. All purchasing will be done by a general purchasing agent, who shall be responsible for the prices paid for all supplies requisitioned for by various city departments, whether delivered direct or through the general city storehouse. He shall also be responsible for the preparation of all vouchers to be forwarded to the Department of Finance in payment for supplies received and accepted by the City. It is proposed that the central purchasing system shall be organized and operated upon exactly the same fundamental lines as the central purchasing systems of the great railway and other large commercial corporations. The forms, procedure and records to be used are copied from one of the most effective systems on the continent, with only such changes as were necessary to adapt them to the city's use.

"All supplies required by city departments, except perishable supplies for daily delivery and coal, wood and forage, will, under the new plan, be requisitioned for by the general storekeeper and purchased for delivery once a month to the general city storehouse in the gross quantities required for the entire city. Thus, instead of the different lines of supplies being purchased upon a hundred or more different contracts at widely varying unit prices for delivery to as many different departments, entire lines will be bought upon a single contract covering the gross quantities required for all departments, at one lowest unit price, for delivery once a month at a single delivery point—the general city storehouse. Instead of bids being asked for covering every conceivable kind of supply in a single contract, bids will be asked for covering the gross quantity required in a single trade line under one contract. This unification of quantities of supplies required to be purchased will so greatly reduce the number of payment vouchers that the city should be able to take advantage of special cash discounts in the payment of its supply bills. The combined unification of quantities, the asking for bids along trade lines and the prompt payment for supplies delivered should greatly increase competition for the city's supply contracts, and correspondingly reduce prices. The plan contemplates departments making all requisitions for perishable supplies for daily delivery and for coal, wood and forage upon the general purchasing agent direct, as supplies of this character will not be handled through the general city storehouse. Purchases will be made covering the gross quantities of these supplies required by all departments, but deliveries will be made by the vendor direct to the different departments in the quantities called for in their requisitions. The handling of practically all the different lines of supplies required by city departments through the



general city storehouse will permit the prompt filling of department requisitions. It will also do away with the necessity for purchasing so large a proportion of the city's supplies upon open market order. To prevent, however, any possibility of a continuation of the existing abuse of the open market order purchase method of obtaining supplies, the proposed plan contemplates the purchase of all supplies over \$200 and under \$1,000 in value upon what is known as the bulletin board system of informal tenders. As fast as the necessity arises for placing these small orders, the general purchasing agent will post upon a bulletin board in his office a list of the supplies to be purchased and state the time when informal bids will be received, opened and the orders placed with the lowest bidder. Small purchases of supplies to the value of \$200 may be made by the general purchasing agent at his discretion.

"The centralization of purchase affords every facility for the exercise of a proper supervision over all requisitions for the purchase of supplies. Every well-devised system of centralized purchase should also provide a prompt means of control over all orders issued and payment vouchers passed for supplies purchased. The proposed plan includes the preparation by the general purchasing agent of a daily control statement showing the city's complete approximate contingent liability for supplies ordered, as well as its complete actual liability for supplies vouchered for payment. This daily summary of the order and voucher action of the supply department shows from day to day the value of all supplies ordered and paid for, segregated into the main funds against which the cost of all supplies are chargeable. It also indicates from day to day the exact rate at which appropriations voted in the annual budget are first encumbered through the issue of orders, and then expended upon vouchers for payment.

"The putting into effect of the proposed plan for centralizing the purchase of supplies for the City of New York would entail very little expense, but it would on the other hand accomplish:

"1. The unification of all purchases, so that the city may be able to buy, through its general purchasing agent at minimum unit prices, the gross quantities of supplies required, instead of purchasing those requirements as it does now through one hundred or more departmental purchasing agents at widely varying unit prices.

"2. The correction of the present abuse of what is known as the open market order method of purchasing supplies without competition by compelling the purchase of all supplies costing in excess of \$200 and up to \$1,000 by informal tender upon what is known as the bulletin board method of securing competition.

"3. The creation of a daily control over all orders for supplies in advance of the execution of the same, so that there may be a comprehensive and efficient administrative supervision over supply purchases for the entire city.

"4. A great reduction in the number of vouchers for payment of supplies due to the unification of purchases for all departments, with a consequent reduction in the time required to make payment for all supplies purchased.

"5. The broadening of competition for city supply contracts by the unification of quantities and the asking for bids for the gross quantities required in same trade lines in a single contract, instead of, as at present, asking for bids upon segregated quantities covering a dozen different lines in a single contract.

"HOW SUPPLIES ARE RECEIVED AT AND DISTRIBUTED FROM CITY STOREHOUSES.—The most important function of a storehouse system is to control and account for the receipt and distribution of supplies required for immediate use. The modern storehouse is a clearing house through which supplies are received in anticipation of immediate requirements and distributed promptly to meet those requirements.

"In this sense the City has no storehouse system. There is absolutely no uniformity in the methods of keeping records of the receipt and distribution of supplies, and in very many cases the records that are kept are hopelessly inadequate. City storehouses are repositories in which supplies vastly in excess of immediate requirements are stored until such time as they may be required for actual use, with the result that huge overstocks, representing millions of dollars are carried all the time.

"No complete inventories showing stock on hand at the end of 1912 are available, but partial inventories, supplemented by information secured from departmental records, indicate that there were in city storehouses, in which records are maintained, on December 31, 1911, supplies, in excess of immediate requirements, to the value of over \$4,000,000. This does not include the value of supplies in excess of actual requirements stored away for future use in storerooms, storage places and locked closets, for which no proper records are maintained. It would take a large staff many months to secure a complete inventory of all the supplies which the City has bought and paid for from year to year and which have never been issued for actual use. It is certain that such an inventory would disclose supplies to the value of many thousands of dollars which have been virtually lost in storage. Some departments have as many as half a dozen storehouses in which delivery of supplies direct from vendors is accepted, and in no one of the half dozen are controlling departmental records maintained, of either receipts or deliveries. In some cases caretakers and engineers are allowed to draw from storehouses, or receive by direct delivery from vendors, supplies sufficient to last them for months, and in many instances entries made in lead pencil in dirty pass books are the only records kept.

"The method employed in preparing the City's annual expense budget makes it necessary for departmental supply officials to estimate the



amount of appropriations required at least sixteen months in advance. With the assistance of the most complete storehouse records, this would be a difficult thing to do accurately, but with the more or less chaotic records that are maintained in most city storehouses it is manifestly impossible for the makers of the city's annual budget to do more than approximate departmental supply requirements. Appropriations in any given year are based upon the amount appropriated in the year previous, with such increases or decreases as appear to be warranted from the wholly inadequate storehouse records and other data available. In order to be on the safe side in this guesswork, departments endeavor to secure the largest possible appropriation. This inevitably leads to over-purchasing and the storing away of surplus supplies in locked rooms and closets against the time when such surplus stock might be required. The unfailing regularity with which budget appropriations for supplies are always expended, and never prove too large, though they so often prove too small, is an indication of the extent to which a proper storehouse system would put an end to extravagance, overstocking, and perhaps even worse conditions in the receipt and distribution of supplies.

"The segregation of items in the annual budget into separate appropriations for divisions, bureaus and institutions within a single department has resulted in a corresponding segregation of supplies purchased under these appropriations, with the result that one bureau or institution within a department might have an overstock of a certain article, while another bureau or institution within the same department might have to go into the open market and purchase, at non-competitive prices, a supply of the same article needed for immediate use.

"In the report of the Division of Inspection of the Department of Finance published in December, 1909, giving the 'points at which supplies are received for the City of New York,' there are enumerated over 2,000 different places at which supplies presumably delivered by vendors are received and accepted by the City. It is only necessary to state this fact to indicate the effect such a distribution of delivery points must have upon competition and the prices paid for supplies, as well as the task it imposes upon inspectors in ascertaining whether or not deliveries are properly made, and upon storekeepers in maintaining proper store and distribution accounts.

"**THE PROPOSED GENERAL STOREHOUSE PLAN.**—The proposed plan contemplates the establishment of a general storehouse, organized and operated as a clearing house for the receipt and distribution of all supplies required by every city department, except perishable supplies and coal, wood and forage, which will be delivered by the vendor direct to the departments for which they are ordered. The general city storehouse will be in charge of a general storekeeper who shall be responsible for the receipt and distribution to departmental storehouses of practically all supplies purchased by the City. The storehouse will be



organized and operated upon exactly the same fundamental lines as the general storehouses of the great railway and other large commercial corporations are organized and operated. The forms, procedure and records to be used are copies from one of the most effective systems on the continent, with only such changes as were necessary to adapt them to the City's use. The plan contemplates the keeping on hand of one month's stock of all supplies that are handled and distributed from the general storehouse, with a second month's stock order at the beginning of each month. The method of ordering stock and issuing supplies to departmental storehouses for distribution necessitates the maintenance of a perpetual inventory of stock on hand in general storehouse. It also provides for the keeping of records of distribution that will assure the most complete control over all supplies ordered by and delivered to departmental storehouses.

"The establishment of a general city storehouse involves the creation of a general stores fund, to provide money for the payment of supplies at the time they are received at the general storehouse and before they are issued to departments, when the cost of the supplies actually received can properly constitute a charge against the departmental appropriations. This stores fund could be created at once by the departments consenting to the transfer of one-quarter of the supply appropriations voted to them in the current year's budget to the fund thus created. This arrangement would permit the immediate establishment of a general storehouse, the supplies being paid for as received out of general stores fund. Every three months, upon quarterly statements by the general storekeeper, credits would pass to the general stores fund and corresponding debits pass to the departmental appropriations for supplies furnished by the general storehouse and accepted by departments.

"The plan also contemplates the installation, in all departmental and sub-storehouses from which supplies are distributed, of uniform store records and store accounts which would correlate with the store records and store accounts proposed for the general city storehouse.

"In a report presented to Congress during December last year by a sub-committee of that body, appointed to inquire into the method of purchasing supplies for the District of Columbia, the establishment of a general storehouse was the only important improvement recommended as the result of an exhaustive inquiry. The reasons given for the recommendation that a general storehouse be immediately established in the District of Columbia were:

"That with 200 delivery points for supplies large dealers were prevented from bidding on supply contracts and that a general storehouse would enlarge the field of competition and ensure lower prices.

"That the concentration of delivery points would afford proper facilities for the enforcement of adequate specifications, and permit uniform and adequate inspection of all deliveries.

"That the establishment of a general storehouse would bring the District into line with general industrial and commercial practice, and would be at once a business-like arrangement and a profitable investment.

"The putting into effect of the proposed plan in the City of New York would require the construction of a suitable storehouse in a central locality and the purchase of sufficient motor trucks to make deliveries of supplies to departments, but it would on the other hand accomplish:

"1. The concentration at one point of the delivery of practically all supplies purchased by the City, broadening competition, reducing the unit costs, affording every facility for the uniform enforcement of adequate specifications and making possible uniform and adequate inspection of all deliveries.

"2. A great reduction in the amount of money now continually locked up in large overstocks of supplies in city storehouses not required for immediate use.

"3. A reduction in the time required to furnish supplies to any city department through the carrying in stock of sufficient quantities of supplies in general use to permit the immediate filling of departmental requisitions.

"4. The absolute control over the distribution of all kinds of supplies to every city department by the creation of comprehensive uniform departmental and general storekeepers' records, accounts and perpetual stock inventories.

"5. The creation of records, not at present maintained, by which the makers of the City's annual expense budget could recommend the authorization of appropriations for supplies based upon complete and accurate information showing the actual user of supplies and the quantities carried in stock from year to year in every city storehouse.

"6. The utilization of the general storehouse for the taking over from departments of used equipment at an agreed valuation, for which they would receive credit, and the re-issuing of the same to other departments requiring it, thus saving the difference between the prices obtained for used equipment at forced sales and the cost of new equipment which would otherwise have to be purchased.

"7. The utilization of the general storehouse for the systematic taking over from departments of damaged or broken equipment or scrap at an agreed valuation, and its disposal in large quantities at prices greatly in excess of those now obtained through the sale of small quantities by separate city departments.

#### CENTRAL PURCHASE PLAN

"REQUISITIONS.—All requisitions for supplies of any character, except perishable supplies for daily delivery and for coal, wood and



forage, are made upon the general storekeeper, whether the supplies are for direct delivery to a department or for delivery to the general storehouse to replenish stock on hand. Requisitions for supplies required to be purchased, except perishable supplies for daily delivery and for coal, wood and forage, are made by the general storekeeper upon the general purchasing agent. Requisitions for perishable supplies for daily delivery and for coal, wood and forage are made by the department storekeepers upon the general purchasing agent. Every requisition carries the departmental or general storehouse designation and requisition number, the title of the fund chargeable and the charge account number (code number), and, when received by the general purchasing agent, bears the certification of the departmental or general storehouse officials, including that of the department head or the general storekeeper. Departmental requisitions for purchase are transmitted to the general purchasing agent through the departmental purchasing agent attached to the department of purchase. In case of small departments or offices not having a purchasing agent, the requisitions duly certified are forwarded direct to the general purchasing agent. Each requisition shall bear a certificate by the department head, or the general storekeeper, that there is to the credit of the fund out of which the expenditure for supplies is to be made sufficient money to cover the payment voucher.

"ORDERS.—Upon receipt of a duly certified requisition the general purchasing agent, if he were acting for a private commercial corporation, would at once issue an order to the firm offering the best terms. In adapting the system to the needs of the City of New York the question might arise whether or not the giving to the general purchasing agent the right to place orders without public bidding is too wide a discretion to repose in such an official. It might be considered wise to require, as is required under the existing law, that all purchases exceeding in value \$1,000 should be made upon registered contract after public bidding. Instead of allowing expenditures for supplies to the value of \$1,000 and under to be made upon open market order without competition, as is at present permitted under the law, it is recommended that all open market purchases be confined to supplies to the value of \$200 and under, and that all expenditures for supplies in excess of \$200 and up to \$1,000 in value be made upon informal tenders, secured by what is known as the bulletin board method of inducing competition. As fast as requisitions are received calling for the purchase of supplies required for immediate use in quantities the value of which does not exceed \$1,000, the general purchasing agent will post upon a bulletin board in his office a list of the supplies to be purchased, and state when bids will be received, opened and orders placed with the lowest bidder.

"GENERAL PURCHASING AGENT'S ORDER REGISTER.—As orders are issued they are posted in an order register. Each kind of article is given a



separate account, with an account number agreeing with its classification number, the pages being numbered seriatim from one to the end of the account for the period which the register covers. Lead pencils, for instance, would be recorded under four or more heads, such as writing, drawing, paper, carpenter's, etc., while brass badges, for example, would be recorded under one head, more detail description being given in the column material ordered. In no case will a page of the order register contain items covered by more than one specification. The first half of the form contains details of the orders issued, while the second half provides for subsequent entries showing deliveries on account, with the invoice data, prices and total value. Blank lines are left upon which are to be made subsequent entries of undelivered portions of the orders. Tracers are used to hurry the completion of deliveries, after which the invoice details are completed in the order register. This record gives the complete story of purchases during the period it covers and includes every detail of information necessary for the preparation of special reports relating to the purchase, cost and distribution of any item of supplies. For instance, it would be possible, from this register, to state without delay the quantity and cost of coal, forage, or any other item of supplies purchased and delivered to any city department during a stated period. Very interesting comparative statements of consumption by the various departments of any kind of supplies for given periods could be readily compiled from this record, which might suggest economies that might not otherwise be evident. Such statements, taken in connection with the departmental records showing the number of employes, inmates and others in the city's eleemosynary institutions using food supplies, would form an accurate basis for the per capita cost of such supplies purchased.

"Purchases of equipment, added to the City's assets from year to year, should be accounted for in the annual inventories prepared by the various departments. A basis for the verification of such inventories is afforded by the records contained in this order register and those which appear in the distribution register maintained by the general storekeeper. A means of control over the distribution of both equipment and consumable supplies could be established by this method.

"That part of the records showing deliveries under orders would also indicate a vendor's promptness or lack of promptness in completing deliveries, making it possible to penalize, in any manner decided upon, vendors with whom lack of promptness in making deliveries was habitual.

"When orders for articles included in a contract are entered in this record, the contract number and the estimated quantity given in the contract are entered in the remarks column. Entries of deliveries then constitute a check upon monthly estimates from departments.

"The record also shows in detail the fluctuation in prices paid for different articles of supplies during the year.

"GENERAL PURCHASING AGENT'S VOUCHER REGISTER.—Inasmuch as all payment vouchers for supplies ordered are prepared by the Department of Purchase, that department, in addition to maintaining a record of orders issued, also keeps a voucher register in which are entered from day to day the details of each voucher sent forward to the Department of Finance for payment.

"GENERAL PURCHASING AGENT'S CONTRACT REGISTER.—When invoices for supplies delivered under contract are received at the end of each month by the general purchasing agent, entries are made in a contract register showing the quantity and value of the supplies delivered under each item in the contract. From this contract register the general purchasing agent is able at any time to ascertain the extent to which deliveries have been made under any contract.

"DAILY STATEMENT SHOWING THE APPROXIMATE VALUE OF SUPPLIES ORDERED AND THE VALUES OF SUPPLIES VOUCHERED.—One of the most important features of all well-devised systems of centralized purchase is a prompt means of control over all orders issued and payment vouchers passed for supplies purchased. With the power to buy all supplies concentrated in a single purchasing agent, it is possible to prepare a daily control statement showing the City's complete approximate contingent liability for supplies ordered, as well as its complete actual liability for supplies vouchered for payment. This statement can be made as comprehensive as circumstances may demand, but the usual practice is to divide all supplies into two main classes—Consumable Supplies and Equipment—with a subdivision of Equipment in New Equipment, and Replacements. The statement can likewise be made to show any number of funds to which supplies so classified may be chargeable.

"This detailed daily statement of the approximate value of supplies purchased is in *convenience* form to be used with the quarterly statement issued by the general storekeeper, in compiling the total quarterly charges for supplies delivered direct to departments, and from general storehouse to departments, under the headings Consumable Supplies and Equipment, New and Replacements. This is important because no provision is made in the records of the general purchasing agent's office for an account with each department separately.

"The chief purpose of the daily detailed approximate value statement is to afford, in convenient form, the information necessary for the preparation of the daily summary statement of approximate values. The first half of this form shows the total value of orders unvouchered to the previous day, the approximate value of orders issued during the current day, and the value of orders vouchered during the current day, giving the grand total of orders unvouchered to the day the statement is issued. The second half of the form shows the approximate value of orders issued during the current month to the previous day, the approximate value of orders issued during the current day, giving the grand



total of orders issued during the current month to the day the statement is issued. A memorandum shows the value of orders previously vouchered during the current month up to the preceding day, the value of orders vouchered during the current day, giving the grand total of orders vouchered during the month to the day when the statement is issued. This daily summary of the order and voucher action of the Department of Purchase therefore gives in approximate values from day to day the supplies ordered for departments and for the general storehouse, segregated into the main fund accounts against which the costs of all supplies are chargeable. It shows from day to day the contingent liability of the city for supplies ordered but not yet vouchered, as well as the actual liability for supplies ordered and vouchered. It also indicates from day to day the rate at which appropriations voted for supplies in the annual budget are first encumbered through the issue of orders and then expended upon vouchers for payment. Back of this summary is the daily detailed statement of approximate values, the data for the compilation of which are obtained from the orders and the voucher register. Publicity may be given to this statement to any extent that may be deemed advisable, but it should be forwarded daily to each member of the Board of Purchase. By this means the three city officials most interested in the administration of the city as a whole would be informed daily of its activities in the purchase of supplies of which, under existing conditions, they have no accurate knowledge. From this daily statement a too rapid expenditure of supply appropriations would become evident before it was too late to be checked. Unnecessary delay in vouchering bills for supplies would also be shown by figures in the statement giving the grand total of orders unvouchered.

"The statement of the value of supplies ordered is called approximate because, although the prices at which the supplies will be invoiced will in most cases be known to advance, the discounts to which the city may be entitled will not be known until the payment warrant is drawn.

"Because of the complications involved in crediting to each account its due proportion of discounts allowed for prompt payment, it is considered that the amount of such discounts should be turned into the city treasury as is now done with moneys realized from the sale of the City's surplus personal property, and that charges against departmental accounts by vouchers covering supply purchases should be on the basis of the invoice prices.

"PRICE CARD SYSTEM OF SECURING APPROXIMATE VALUES.—A properly tabulated and easily accessible record of unit prices paid is essential in securing economy in the purchase of supplies both upon contract and open market order. Public bidding upon supply contracts is designed to secure, through open competition, the lowest prices obtainable. A tabulated record of the unit prices paid by the various departments of the City of New York for supplies bought upon contract for given years



shows a very wide variation in the unit prices paid for the same kind of supplies by different departments, and in many instances the prices so paid were greatly in excess of the average market price for such supplies at the time the purchases were made. Any sort of effective control over the prices paid upon open market orders would save the city many thousands of dollars annually. Well-devised systems of purchase, in order to control unit prices paid for supplies, utilize what is known as a price card system. Upon separate cards for each item, alphabetically arranged by classes in filing cabinets, is entered a record of all unit prices paid for supplies at the time the purchases are made. At any time this unit price record may be compared with the ruling market price for the same class of supplies. It is from these cards that the general purchasing agent obtains information as to the approximate value of supplies purchased upon open market. The record is available also in enabling him to determine whether or not the prices bid upon contracts are as low as the city has a right to expect.

“REQUEST FOR PRICES ON INFORMAL TENDERS.—The plan contemplates the purchase of all supplies over \$200 and up to \$1,000 in value upon what is known as informal tenders. It is also a matter for careful consideration whether or not this method could not with advantage be applied to the purchase of supplies to a much greater value. Purchase by informal tenders consists of requests being sent to a limited number of dealers asking them to submit prices at which they are prepared to furnish the supplies listed and described in the specifications sent to them. No security deposit or bond for faithful performance is required as in the case of a registered contract.

“Opportunity for abuse of the purchasing power and for laxity in securing competition is present in any system of purchasing supplies upon informal tender. There is always the possibility that the lowest tender received may be much higher than the proper market price unless a sufficient number of bidders who are actual competitors are requested to quote or are notified that bids will be received. To insure competition, therefore, it should be required that a copy of each request to bid be conspicuously posted upon a bulletin board in the office of the general purchasing agent. This practice is followed in many of the departments of the Federal Government with good results. It is required by law that proposed contracts for supplies be advertised in the *City Record* and in certain designated daily newspapers, but to insure as wide publicity as possible, requests to bid upon advertised contracts should also be posted upon the general purchasing agent's bulletin board.

#### GENERAL STOREHOUSE PLAN

“GENERAL STOREKEEPER'S REQUISITION UPON THE GENERAL PURCHASING AGENT FOR SUPPLIES FOR STOCK.—In making requisitions upon the

general purchasing agent for the purchase of supplies to be delivered direct to departments, as far as possible it should be sought to keep on hand one month's stock of all supplies that are handled by and issued from the general storehouse with a second month's supply on order at the beginning of each month.

"It will be noticed that in requisitioning for supplies for stock, the general storekeeper is required to furnish with each requisition information showing for each article therein called for, the quantity on hand in the general storehouse, and the quantity due the general storehouse from uncompleted deliveries on order, as well as the average monthly consumption of each article, based upon the quantities issued for the immediately preceding three months. This requires, of course, the maintenance of a perpetual inventory of all supplies held in the general storehouse.

"GENERAL STOREKEEPER'S REGISTER OF INVOICES FOR SUPPLIES PURCHASED FOR STOCK.—When supplies are received at the general storehouse the details of the invoice or delivery slip accompanying the delivery are immediately entered in a register of invoices. This register is kept by months and the details contained in the invoices are indexed under the names of the vendors.

"GENERAL STOREKEEPER'S RECORD OF INVOICES SENT ON FOR PAYMENT.—As invoices are sent forward for payment, entries are made in a record of invoices. The purpose of this record is to account for the disposition of each invoice and show the date when the amount therein called for is constituted a charge against the stores fund.

"DELIVERY SLIPS ACKNOWLEDGING DELIVERIES UNDER CONTRACT.—Supplies purchased under contract by the City of New York are delivered from time to time as ordered and the deliveries are covered by vouchers at the end of each month during the continuance of the contract. Invoices are not required with each delivery. Instead, delivery slips are used to acknowledge the receipt of supplies, final acceptance, however, being subject to such subsequent inspection or laboratory tests as may be required to determine quality. These delivery slips are treated in the same manner as invoices so far as the records are concerned, and the details thereon entered in the general purchasing agent's order register and also in the general storekeeper's invoice and receiving registers. These forms are supplied to the contractor at the time he is instructed to begin deliveries and are suggested as a means to avoid the confusion at present experienced from the diversity in size and form of the receipts presented by contractors.

"GENERAL STOREKEEPER'S RECEIVING REGISTER FOR SUPPLIES PURCHASED FOR STOCK.—When supplies are received at the general storehouse the details of the invoice, or delivery slip, accompanying the delivery are entered in a receiving register which contains separate accounts for each classified item of supplies carried in stock in the

storehouse. As invoices and delivery slips are received, the different items of supplies therein contained are posted into the register under the item to which they belong, one or more pages being used for recording the invoice data for each item of supplies.

**"GENERAL STOREKEEPER'S CONTRACT REGISTER.**—When supplies delivered under contract are covered by regular monthly invoices, the items therein contained are compared with the entries in the register of invoices taken from the delivery slips accompanying each delivery during the month. Entries are then made in the contract register, under the proper month heading, of the quantity and value of the deliveries made during the month of each item of supplies covered by the contract. This record shows in condensed form the progress of the carrying out of the contract month by month and compares deliveries of each item of supplies with the estimated quantity of the item contained in the contract.

**"ORDER COVERING THE RETURN OF REJECTED SUPPLIES.**—It is the duty of storekeepers to decide whether or not supplies delivered to them by the vendor comply with the specifications or descriptions under which they were purchased. It often happens, however, that supplies are accepted which later prove to be unsatisfactory and not in accordance with the terms of purchase. In such case the storekeeper shall advise the general purchasing agent who shall, after arranging with the vendor, advise the storekeeper to return the rejected supplies therein listed to the vendor. The storekeeper shall then issue an order for their return. The order form is provided with a stub counterpart, which is retained as a record by the storekeeper. The original order is retained by the storehouse foreman, or other person actually returning the supplies, as a justification for their return and to account for their absence from the bin, locker, or other storage place.

"The use of such a formal order prevents reckless habits in the return of rejected deliveries, and places the responsibility for the rejection upon the storekeeper.

**"DELIVERY FORM COVERING THE RETURN OF REJECTED SUPPLIES.**—In returning rejected supplies to the vendor the person making the actual delivery uses a delivery form upon which the details are made out in triplicate by the use of carbon sheets. The first section is retained by the person making the delivery. The second and third sections are presented to the vendor, or his representative who received the delivery, one of which sections he retains and the other he signs and returns to the person making the delivery, who hands it over to the storekeeper as evidence that actual delivery has been made. The storekeeper's copy is used as a basis for entries in the receiving register showing the return of the supplies and to prepare a credit advice slip for the information of the general purchasing agent.



"CREDIT ADVICE SLIP FOR REJECTED SUPPLIES.—Immediately after the return of rejected supplies to the vendor, the storekeeper shall advise the general purchasing agent, so that a credit may pass through his records and the records of the Department of Finance, against the original order and invoice carrying the rejected supplies as a charge against the receiving storehouse, or the Stores Fund, if the original order emanated from the general storekeeper.

"THE CREATION OF A GENERAL STORES FUND.—The establishment of a general storehouse involves the creation of a General Stores Fund. The plan involves the keeping in stock in the general storehouse a full month's requirements, with another full month's requirements on order at the first of each month. Little difficulty should be experienced in thus limiting the volume of supplies kept in stock, since a large part of the supplies required during the year will be contracted for at one time, and monthly orders against contracts arranged to meet requirements. As supplies are ordered each month for stock they are paid for upon delivery by vouchers drawn by the general purchasing agent against the Stores Fund. As fast as supplies from stock are delivered to departments they constitute a charge against the supply appropriations, or other funds, of the receiving department and a corresponding credit to Stores Fund. If it were practicable to credit Stores Fund each time a delivery of supplies was made from stock, that fund would only need to be equal to the money value of one month's requirements. A great deal of unnecessary work can be saved, however, by having the debits against departmental appropriations and other funds, and the corresponding credits to Stores Fund for supplies delivered from stock, pass quarterly. By this means credits to a departmental budgets account, due to transfers of supplies to the general storehouse, will be balanced against debits to the same account, leaving only one entry, either debit or credit, against each account effected, to be made in the books of the Department of Finance. For this reason it is recommended that a Stores Fund be created sufficient to cover the cost of supplies purchased for general storehouse stock for a three months' period, plus the small amount necessary to carry general storehouse purchases through the time required to adjust the accounts. A record should therefore be maintained by the general storekeeper, showing the disposition of all supplies issued from stock in such a manner that a quarterly statement may be prepared.

"OTHER FEATURES OF PROPOSED SYSTEM.—The proposed general storehouse plan thus far described deals with every feature of the system necessary to stock the storehouse with supplies for distribution. The balance of the proposed plan deals with the system of issuing supplies from storehouse to departments upon requisition as required, of accounting for stock on hand and of controlling the distribution of supplies issued."

**85. The ideal purchasing department.**—The author believes there are many reasons why the ideal purchasing department of the not far distant future will be in the form of a separate company. In fact, one or two such companies are already organized and in successful operation—successful in the saving they effect for their clients no less than in the profits they earn. These companies are divided into four classes, as follows:

1. Jobbers agencies.
2. Foreign agencies.
3. Consumers agencies.
4. General agencies.

**86. Jobbers agencies.**—In almost every line of trade there are companies whose business it is to make purchases for jobbers, retailers and middlemen only. These companies are sometimes called “syndicate buyers.” Most of these companies have their headquarters in New York, Chicago or Pittsburg, the market centers, and act as resident buyers for out-of-town jobbers. The client pays an annual fee for this service and in return is saved the expense of maintaining an office in the market center. Such buying companies are not only usually able to get better discounts from the manufacturer than the jobber could obtain direct but as they are located in the market, the convenience is usually worth the fee. One of the best features of the buying syndicate is the price information it supplies to clients. The greatest talking point of such companies is that by combining the purchases of many small jobbers or retailers, each client will get as favorable quantity prices as though each was a very large concern. The author has heard it said, that one trouble with buying companies of this sort has often been that the client has not received the benefit of the full quantity discount secured. In other words, if the statements of some jobbers and retailers are to be believed, such companies sometimes try to get a revenue at each end of the line—from the client and from the manufacturer.

The author has also been told that another trouble has been that these buying companies have not always resisted the temptation to go into competition with their own clients by doing a jobbing business on the side. Again, some of them attempt to carry stocks and deliver to their clients out of their own stocks, instead of from the manufacturer. In other words, many of these companies do not, in practice, carry out their ideals.



Syndicate buyers are not in favor with some manufacturers for the reason that where the latter tries to maintain one price to the "trade" and another price to the "consumer," these buying companies, it is said, sometimes demoralize the schedule and will not adhere to it. Since the modern tendency is toward direct dealing between the manufacturer and the consumer, the days of the jobber are numbered and likewise the days of the buying concern which caters to the jobber.

**87. Foreign agencies.**—In the same way that companies of the class just discussed serve domestic jobbers, so do foreign agents serve their clients. One distinction of this class, however, is that the lines of goods dealt in are likely to be more closely drawn. The foreign agent is not so likely to buy such a wide range of articles, though exceptions exist. Furthermore, some foreign agents represent middlemen, some represent consumers and some represent both. These agencies serve a good purpose and will multiply in number as our foreign trade increases.

**88. Consumers agencies.**—Very few companies along this line have been organized although by far the best in theory and practice. As indicated, they buy for consumers and they have several decided advantages.

In the first place, they obtain the same discounts from the manufacturer that are granted to the jobber. As these discounts vary from 5 per cent. to 40 per cent. with an average of say, 15 per cent., the consumer is saved the jobber's profit, except the small fee to which the buying company is entitled. This fee amounts to about 5 per cent. It may be asked how the buying company can afford to do business more cheaply than the jobber. The answer is that the buying company carries no stock, has no warehouse and no selling expense. These are the jobber's big items, and the consumer must pay these costs to the jobber if he deals with him.

In the second place, the consumers' company is enabled, by reason of the volume of its business, to employ expert buyers for each line. One man skilled in buying machinery, one in buying lumber, and one in buying chemical supplies, etc., may be included, whereas the purchasing agent for the consumer cannot be skilled in all branches. Hence a buying company will be more efficient than a private purchasing agent. At least, such a company can give valuable assistance to the regular purchasing agent.

Companies which make buying a specialty find a large class



of clients among those consumers who cannot afford to employ a purchasing agent regularly. Another class of clients is that which, by reason of the nature of the business, would need a purchasing agent only during a portion of the year. Still another class of clients is that which buys irregularly and intermittently.

**89. Miscellaneous agencies.**—In addition to the forms of buying companies mentioned above, we find exporters, importers, special agents, resident buyers and general buyers. Each fulfills a certain function but need only be mentioned, as they are foreign to the subject in hand.

**90. Summary.**—The purchasing department should be analyzed to see that it conforms to the size and nature of the business it is intended to serve. Any system should be elastic and its expense made to vary with the business. A municipal purchasing department will require certain features not necessary in a private corporation and a study of the proposed system for New York City will be of service in this connection. Purchasing companies should be scrutinized to see that they work solely for the interests of their clients, and it should be remembered that those catering only to the consumer are founded on the principles best calculated to effect savings.

## CHAPTER X

### FORMS

**91. Advantage in the use of forms.**—The advantage to be derived by the use of forms is to be found in the saving of time and money which they produce and the mistakes which they prevent. The time required to follow a blank form is much less than would be required to write out the matter in full. Not only do forms save much time for the clerical force, but also for the principals, since they permit transferral to the clerical force of work which they otherwise would have to assume themselves. Guided by forms devised to take care of the usual transactions, the clerk can keep a large amount of routine going, and only the special features need go to his superior. With certain blanks to be followed, the memory need not be relied on to so great an extent, hence errors are reduced in number. The policy of any company can be carried into effect uniformly through a large organization by the use of standard forms for prescribed conditions in a way which would be impossible if each employee were left to devise his own letters, orders, etc. Were it not for the use of forms, large organizations would be impossible, at least on the basis of cheap clerical help.

**92. Choice of language in preparing forms.**—Great care should be exercised in the preparation of form letters or any other forms. Mistakes, delays, disputes and even legal difficulties may be produced by the failure to make the intent clear. For example, the use of adjectives and adverbs should be discouraged. Many specifications state that the goods should be delivered "promptly," or that the work shall be done in a "proper" manner. These expressions are vague, since the meaning is not exact. It is just as bad to specify exactly how a thing shall be done and then expect a guarantee as to the result. We cannot hold another responsible for our own mistakes, and the specific direction may have been the cause why the seller was not able to produce the result which he has guaranteed.

Another reason for the use of care in preparing forms lies in the fact that the impression one creates on the recipient is of great importance. This, of course, is equally true of all correspondence. A good letter will sometimes make as good an impression as the writer would make in a personal interview. It may at least form the entering wedge. An unbusinesslike letter either goes into the waste basket or into a dead file. All letters or forms should be couched in simple, straightforward language. Short letters and short forms are to be preferred in every case. Stock phrases have been decried but they are better than fanciful ones. This may not be true from the seller's standpoint, but it certainly is from the buyer's.

**93. Objections to the use of forms.**—Two important objections have been raised to the use of forms. The first is that they do not command much attention from those who receive them, because of their stereotyped and uninteresting appearance. This objection had been raised to form letters particularly. This is often true, but the trouble is due to the poor design of the form and not to the principle. A form should fit the business and, what is more to the point, it should fit the case; else it should not be used. It should also be so prepared that it does not look like a form proposition any more than a bronze statue should show the marks of the mold from which it is cast. The form should where possible stay on the stenographer's desk merely for use as a guide in dictation. The letter should be typed as though dictated in full.

The second objection usually urged against forms is that emphasis is not put on the one thing that is most important. This of course can be remedied only by mechanical means, that is to say, by using a greater number of forms to fit different cases, by varying the size of type and spacing or by using accompanying letters which point out the essentials.

**94. Object of form illustrations.**—The forms given in the following pages are not intended to be used blindly but they may be of assistance in designing others which will better fit a given business. While the forms illustrated are not of uniform size and shape, in actual practice they should be as nearly so as possible. Elegance of style and in some cases grammar has been sacrificed in order to keep within the bounds of the phraseology best understood by those most likely to be concerned. The forms represent standard practice.



95. Form letters.—

**THE PURCHASING COMPANY**  
0123 BROADWAY,  
NEW YORK,....., 191..

MESSRS.....  
.....  
.....

Attention of Mr.....

GENTLEMEN:

Kindly wire us, immediately on receipt of this letter, your best quotation on .....  
as per the enclosed blueprint (or list), F.O.B. your works, shipment to be made within ..... from receipt of order.

Yours truly,

THE PURCHASING COMPANY,

Encl. By .....  
(Title)

FIG. A.—Request for quotation by wire.

**THE PURCHASING COMPANY**  
0123 BROADWAY,  
NEW YORK,....., 191..

MESSRS.....  
.....  
.....

Attention of Mr.....

GENTLEMEN:

Kindly have your representative call on .....  
prepared to quote us on enclosed blueprint (or list).

Yours truly,

THE PURCHASING COMPANY,

Encl. By .....  
(Title)

FIG. B.—Request for quotation in person.

# THE PURCHASING COMPANY

0123 BROADWAY,

NEW YORK,....., 191..

To.....  
(Name of seller)

.....  
(Address of seller)

Attention Mr.....

.....  
(Title and department)

GENTLEMEN:

Kindly give us your best quotation on the following items:

.....  
.....  
.....  
.....  
.....  
.....  
.....

State the price per ..... F.O.B. ....  
(lb., yd., etc.) (point of delivery)

State date you will *guarantee* shipment (delivery).

State terms.

BIDS MUST BE IN OUR HANDS BY.....

THE PURCHASING COMPANY,

By .....  
(Title)

FIG. C.—Request for quotation by mail.

## THE PURCHASING COMPANY

0123 BROADWAY,

NEW YORK,....., 191..

To.....  
(Name of seller)

Attention Mr.....

.....  
(Address).....  
(Title and department)

GENTLEMEN:

Kindly return this form to us with your best quotations  
on the following items. State price per .....  
(lb., yd., etc.)

F.O.B. .... Bids must be in our hands  
(point of delivery)

by.....

Signed .....

We hereby agree to furnish the following items at the prices and  
under the other conditions named.

.....  
.....  
.....

*We will guarantee to begin shipment by ..... and  
complete by ..... Our terms are.....*

*This quotation will expire ..... but your acceptance,  
if received on or before ....., will, together with this  
proposal, form a contract binding on both parties.*

Signed .....  
(Name of seller)

By.....  
(Title)

FIG. D.—Request for quotation on return blank.



THE PURCHASING COMPANY

0123 BROADWAY,

MESSRS. .... NEW YORK, ....., 191..

..... Attention Mr .....

GENTLEMEN:

Your letter of ..... received, regarding your quotation on ..... We have to inform you that you were unsuccessful in securing the order for this material, but we thank you for your figure and we trust you may be more fortunate on your next quotation.

Yours truly,

THE PURCHASING COMPANY,

By .....  
(Title)

FIG. E.—Rejection of quotation.

THE PURCHASING COMPANY

0123 BROADWAY,

MESSRS. .... NEW YORK, ....., 191..

..... Attention Mr .....

GENTLEMEN:

Your letter of ..... received, regarding your quotation on .....

We have to inform you that we are not ready to place the order for this material. We suggest that you again communicate with us about.....

Yours truly,

THE PURCHASING COMPANY,

By .....  
(Title)

FIG. F.—Quotations in process.

THE PURCHASING COMPANY

0123 BROADWAY,

NEW YORK,....., 191..

MESSRS.....

.....

.....

Attention Mr.....

GENTLEMEN:

Your letter of ..... received regarding your quotation on..... We have to inform you that we have decided not to place the order for this material, due to a change in our plans. We thank you, however, for your figure and we will advise you when we are in the market again.

Yours truly,

THE PURCHASING COMPANY,

By .....  
(Title)

FIG. G.—Unused quotation.

THE PURCHASING COMPANY

0123 BROADWAY,

NEW YORK,....., 191..

MESSRS.....

.....

.....

Attention Mr.....

GENTLEMEN:

In answer to your favor of the ..... would say we are not in the market for the material referred to in your letter.

Thanking you for advising us in the matter, we remain,

Yours truly,

THE PURCHASING COMPANY,

By .....  
(Title)

FIG. H.—Rejection of unsolicited quotation.

THE PURCHASING COMPANY

0123 BROADWAY,

NEW YORK,....., 191..

MR. OF MESSRS.....

.....

.....

DEAR SIR OR GENTLEMEN:

We are in receipt of your letter of.....  
and regret that we are not in a position at the present time to avail  
ourselves of your services. We will be glad to bear you in mind  
and advise you, should these circumstances become altered.

Yours truly,

THE PURCHASING COMPANY,

By .....  
(Title)

FIG. I.—Rejection of service.

THE PURCHASING COMPANY

0123 BROADWAY,

NEW YORK,....., 191..

MESSRS.....

.....

.....

Attention Mr.....

GENTLEMEN:

In answer to your letter of .....  
would say we are unable to accommodate you with the material  
referred to.

Regretting our inability to oblige you, we beg to remain,'

Yours truly,

THE PURCHASING COMPANY,

By .....  
(Title)

FIG. J.—Refusal to quote.



**THE PURCHASING COMPANY**

0123 BROADWAY,

NEW YORK,....., 191..

MESSRS.....

..... Attention of Mr.....  
(Address)

.....  
(Title and department)

GENTLEMEN:

Please refer to our order No. ...., dated  
....., and note that shipment was promised  
for .....

Please give us an immediate report on the progress you have  
made with this order.

Yours truly,

THE PURCHASING COMPANY,

By .....  
(Title)

FIG. K.—Follow-up letter before shipment.

**THE PURCHASING COMPANY**

0123 BROADWAY,

NEW YORK,....., 191..

MESSRS.....

..... Attention Mr.....  
(Address) (Title and department)

GENTLEMEN:

Please send us, at once, Bill of Lading for goods shipped  
under our order No. ...., dated .....

As we are in need of the material, will you put a tracer on  
this shipment and advise us of the report which you receive from  
the railroad company.

Yours truly,

THE PURCHASING COMPANY,

By .....  
(Title)

FIG. L.—Follow-up letter requesting B/L.

# THE PURCHASING COMPANY

0123 BROADWAY,

NEW YORK,....., 191..

MESSRS.....

.....  
(Address)

Attention Mr .....

.....  
(Title and department)

GENTLEMEN:

We wrote you on ..... regarding our  
order No. ...., dated .....  
asking you to put a tracer on the shipment. Please reply to our  
letter, giving us the latest information.

Yours truly,

THE PURCHASING COMPANY,

By .....  
(Title)

FIG. M.—Follow-up letter to go after shipment.

# THE PURCHASING COMPANY

0123 BROADWAY,

NEW YORK,....., 191..

..... Railroad Co.,

.....  
(Address)

Attention of Mr .....  
(Freight Agent)

GENTLEMEN:

On ..... the .....  
Company shipped ..... Car No. ....  
(initials)  
consigned to us via ..... at .....  
(routing)

We are in a great hurry for this car and would ask you kindly to  
trace the same and give us your report.

Yours truly,

THE PURCHASING COMPANY,

By .....  
(Title)

FIG. N.—Follow-up letter to Railroad Co.

## 96 Requisitions.—

THE PURCHASING CO.

0123 BROADWAY,

NEW YORK CITY.

Inter-office

Requisition for Material

No .....

GENERAL PURCHASING AGENT:

Please furnish us with the following and charge to (—)  
account:

Number required	Article	Size or weight	Other specifications

Ship via .....  
(State whether mail, express, local freight or carload freight and routing)

Consign to .....  
(Give exact address)

Send B/L to .....  
(Give name of job and exact address)

Material needed .....  
(Give date needed at destination)

Special information .....  
(Insert any special information such as terms, etc.)

Signed .....

(Space below this line to be reserved for General Purchasing Agent's office)

Please obtain quotation on the material called for in above  
requisition, with the following modifications:

.....  
.....

Signed .....

.....  
General Purchasing Agent

FIG. A.—General form, for material.



<p style="text-align: center;"><b>THE PURCHASING CO.</b>          0123 BROADWAY,          NEW YORK CITY.</p>	<p style="text-align: center;">Inter-office          Requisition for Labor          No. ....</p>
--	--

**GENERAL PURCHASING AGENT:**  
 Kindly send us the following men:

Number required	Position to be filled (that is, supt. foreman, rigger, carpenter, etc.)	Rate of wages	General character of men wanted

Send men via ..... to .....  
 (State routing and name job)

Dates needed .....

Transportation .....  
 (State whether to be paid or not)

Remarks .....  
 (State duties required of men, hours worked, name of  
 .....  
 man who will be in direct charge of job in question,  
 .....  
 any special men preferred, if any, etc.)

Signed .....

---

(Space below to be reserved for General Purchasing Agent's office)

Please send the men called for above with the following modifications:  
 .....  
 .....

Signed .....

.....  
 General Purchasing Agent

FIG. B.—General form, for labor.

<p><b>TO PURCHASING AGENT</b></p>			<p style="text-align: center;">Factory Requisition for Supplies</p> <p>No. ....</p>	
<p style="text-align: right;">DATE ....., 191..</p> <p>The following is needed for account of .....</p> <p style="text-align: right;">Shop Order No. ....</p>				
Quantity	Description	Date ordered	From	Pur. order No.
		Memorandum for Purchasing Agent only		
<p style="text-align: right;">Sign here .....</p>				

FIG. C.—Special factory form.

## REQUISITION

This requisition must be accompanied by bills in **DUPLICATE**  
for all extra work finished to date.

..... **CONTRACT** ..... 191..

MESSRS. ....

.....

**GENTLEMEN:**

On the above date our contract amounts to \$.....  
and we have received extra acceptances amounting to \$.....

\$.....

deduct for credits which have been accepted \$.....

Total \$.....

The actual value of contract to date is \$.....

Less ..... per cent. to be retained as per contract \$.....

makes amount upon which payment can be asked \$.....

We have received to date payments amounting to \$.....

which leaves a balance now due us of \$.....

for which amount we hereby make requisition.

Yours truly,

.....

This requisition must be returned  
before..... or it can-

not be acted on for one month.

If you do not wish to make requisition,  
please notify us by return  
mail.

Approved for \$.....

The sum of \$..... is

ALLOWED.

.....  
(Member of firm)

FIG. D.—Contractor's form, requisition for payment.





## 97. Tabulation of bids.—

## THE PURCHASING COMPANY

## BIDS ON MATERIAL

Article .....

Description .....

Bids Closed .....

Name of bidder	Price per.....		Total price	Size, Weight	Terms F.O.B.	Shipment Delivery

Job ..... Approx. quantity .....

Order No ..... To ..... Authorized by ..... Placed by .....

Reason .....

Job ..... Approx. quantity .....

Order No ..... To ..... Authorized by ..... Placed by .....

Reason .....

Job ..... Approx. quantity .....

Order No ..... To ..... Authorized by ..... Placed by .....

Reason .....

FIG. A.—General form.

## CITY OF NEW YORK

## ABSTRACT OF PROPOSALS TO FURNISH SUPPLIES

Bid No.....								
Requisition No.....								
Order No.....								
Date of order .....								
With whom .....								
.....								
Bids closed .....								

Quantity	Description	Price per... del'd.	Price per... del'd.	Price per... del'd.	Price per... del'd.	Price per... del'd.	Price per... del'd.
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....

FIG. B.—Form proposed for New York City.



98. Price and catalogue index cards.—

Date	Letter No.	Name	Address	Catalogue			Prices			Remarks
				No.	Page	Kind	List	Disc.	Net	

FIG. A.—General form of price card.

Article .....

.....

Description .....

.....

Date	From	Per	List	Disc.	Net	Size	Remarks

FIG. B.—Factory form price card.

Name		File No.
Address		
Subject		

FIG. C.—Catalogue Index Card—By Names.

Subject		File No.
Name	Address	

FIG. D.—Catalogue Index Card—By Subjects.

## 99. Orders and acceptances.—

ORIGINAL	
<p><b>THE PURCHASING COMPANY</b></p> <p>0123 BROADWAY,</p> <p style="text-align: center;">NEW YORK,.....</p>	<p style="text-align: center;"><b>ORDER</b></p> <p>No .....</p>
<p>To.....</p> <p>.....</p> <p>.....</p>	<p>Number of order and destination of goods must appear on your invoice.</p> <p>Invoices must be rendered in duplicate, accompanied by Bill of Lading or Shipping Memo.</p>
<p>PLEASE FURNISH US WITH THE ARTICLES NAMED BELOW:</p> <p>Deliver to .....</p>	
Empty space for item details	
<p>Signed, THE PURCHASING COMPANY,</p> <p style="margin-top: 20px;">By ..... (title)</p>	

FIG. A.—General blank form of order.



# THE PURCHASING COMPANY

0123 BROADWAY,

ORDER No. ....

NEW YORK, ..... 191..

To. ....

We hereby authorize you to supply us with the following:

Quantity	Size	Description	Price

Terms. ....

Date of shipment. ....

Consign to ..... via .....  
(give exact address)

(mail, express, local or carload freight)

Routing. ....

Send B/L to ..... and invoices IN DUPLICATE to

Special conditions. ....

Signed, THE PURCHASING COMPANY,

By .....  
(title)

FIG. B.—General form of order, detailed.

## ATLAS WORKS

Order No. ....

Req. No. .... NEW YORK, N. Y., ..... 191..

To. ....

.....

Please furnish us the material specified below, sending *DUPLICATE INVOICES* and *BILL OF LADING* for each lot of goods shipped on day Shipment is made. *Mark Invoice, Bill of Lading and each package with above order and requisition numbers.*

Shipment Promised      Voucher No. \_\_\_\_\_

Ship via \_\_\_\_\_

Acknowledge receipt of order, giving number of same.

If you cannot ship at once, state when you can begin making deliveries and how long it will take to complete each item.

Advise what your charge will be on any items not priced.

The acceptance of this order guarantees us lowest prices, which must not be higher than last quoted nor charged without first consulting us.

No charge will be allowed for cartage or packages.

Car service will be deducted for all cars that reach us without shipping advice or bill.

Do not deduct freight allowance from your invoices. We will make all freight deductions, sending you notice of same.

ATLAS WORKS,

.....  
Purchasing Agent

FIG. C.—Special shop form of order.





## THE SELLING COMPANY

NEW YORK,....., 191..

### ACCEPTANCE

THE PURCHASING COMPANY,  
0123 BROADWAY,  
NEW YORK CITY.

Attention of Mr .....

GENTLEMEN:

We acknowledge with thanks receipt of your favor of  
(.....), covering your order No. (.....), for  
(.....),  
in accordance with your drawing No. (.....), and as per  
our quotation of (.....).

Price to be (\$.....), F.O.B. our works with  
freight allowed to (.....). Shipment to be con-  
signed to the Purchasing Company (.....), N. Y.

We agree to make shipment in (.....) weeks.

Terms of payment: .....

This order is accepted subject to delays beyond our control.

Yours very truly,

THE SELLING COMPANY,

By .....

If above is not in accordance with your understanding, kindly advise  
us at once.

FIG. E.—Typical acceptance.

**100. Typical clauses for use in writing orders.**—The following typical clauses are to be used merely as a guide. One copy should be on the principal's desk and one on the stenographer's. They serve two main purposes: First, by scanning them, no essential will be omitted by the principal in dictating the order; second, the stenographer can write the order if merely given the clause numbers and sub-letters with the data necessary to complete the sense. Accuracy and a great saving in time will result.

1. Number of requisition.
2. Number of bid sheet.
3. Number of order.
4. Date of order.
5. Name of buyer and address.
6. Name of seller and address.
7. Authority for seller to proceed.
  - (a) Please furnish us with the following items.
  - (b) You are hereby authorized to supply us with the following items as per your proposal No. . . . ., dated . . . . .
  - (c) You are hereby authorized to supply us with all the items mentioned in your proposal No. . . . ., dated . . . . ., at the prices and under all the conditions and terms mentioned therein.
  - (d) We hereby accept your proposal No. . . . ., dated . . . . ., which, together with this order, will form a contract binding on both parties. Kindly proceed at once.
8. Description of material.
  - (a) All of the material called for on attached list.
  - (b) All of the material shown or indicated on the following attached drawings approved by . . . . . (state numbers or dates, or other means of identifying the drawings).
  - (c) All of the labor and materials called for in the attached blueprints and specifications, attached hereto and made a part hereof, which may be identified as follows (state numbers, dates, letters, or other means of identification):
9. Dates of shipment (or delivery).
  - (a) It is understood that you will commence shipment (or delivery) on or before . . . . . 191.., and complete shipment (or delivery) on or before . . . . . 191..
  - (b) It is understood that you will make shipment (or delivery) in accordance with the following schedule.
  - (c) **TIME IS OF THE ESSENCE OF THIS ORDER** and it is understood and agreed that failure on your part to make shipment (or delivery) as stated above will render this order null and void and that in such event no liability for payment, for

material partly manufactured by the seller, will attach to the Purchasing Company.

- (d) TIME IS OF THE ESSENCE OF THIS ORDER and it is understood and agreed that the Purchasing Company may buy from a third party any parts the ..... Company may fail to ship (or deliver) on or before the dates mentioned above, charging any excess which may be paid for the said parts, over and above the prices named herein, to the account of ..... Company, and the Purchasing Company will not be obligated to pay for, nor receive, the said parts from the ..... Company, even though partly manufactured. In case the Purchasing Company shall exercise the option just stated, it shall give notice in writing to this effect to the ..... Company which will not be relieved from completing the rest of the order.
- (e) TIME IS OF THE ESSENCE OF THIS ORDER and it is understood and agreed that failure on the part of the ..... Company to ship (deliver) as per above schedule will cause damage to the Purchasing Company to the extent of \$..... per calendar day, and shipment (delivery) before the dates mentioned above will be of value or benefit to the Purchasing Company to the extent of \$..... per calendar day. Therefore, the Purchasing Company shall be allowed to deduct from any amounts due, or to become due, the ..... Company its damage by reason of delay, not to exceed a sum total of \$..... and, on the other hand, the Purchasing Company agrees to pay, in addition to the prices named elsewhere, an amount equal to the benefit caused by anticipation in dates of shipment, not to exceed the sum of \$.....
- (f) TIME IS OF THE ESSENCE OF THIS ORDER and it is understood that delay in shipment (or delivery) will cause damage to the Purchasing Company, whereas quick shipment (or delivery) will be of value to the Purchasing Company. It is therefore agreed that the prices to be paid to the ..... Company shall be contingent on the dates of shipment in accordance with the following schedule.
- (g) It is understood that all dates of shipment (or delivery) shall be changed and extended an amount equal to the time lost by the ..... Company by reason of strikes, lockouts, fires, accidents or any other acts beyond the control of the ..... Company, provided only application for extension of time be made in writing



within ..... days of the beginning of the occurrence of such cause of delay. It is further agreed that if such cause of delay is such as to render the ..... Company unable to make shipment (or delivery) within ..... days of the schedule above (or below), then, in that case, this order shall become null and void as regards any unshipped (undelivered) portion.

10. Terms.

- (a) Net cash 30 days after date of B/L (or delivery).
- (b) 1 per cent. ten days—net 30 days after date B/L (or delivery).
- (c) 1½ per cent. ten days—net 30 days after date B/L (or delivery).
- (d) 2 per cent. ten days—net 30 days after date B/L (or delivery).
- (e) 5 per cent. ten days—net 30 days after date B/L (or delivery).
- (f) 2 per cent. 30 days—net 60 days after date B/L (or delivery).
- (g) Cash on receipt of B/L (or delivery).
- (h) Freight cash.
- (i) Cash in advance.
- (j) Usual.
- (k) Special.

11. Special clauses.

- (a) Sub-letting.—This order, neither as a whole nor in any part, may be sub-let by the ..... Company without written consent from the Purchasing Company. The prices named herein are agreed to in consideration of the reliance placed by the Purchasing Company in the ability of the ..... Company, and sub-letting of any part or the whole of this order without consent, as above stated, will render it null and void.
- (b) Damage.—It is understood that the ..... Company will protect and save harmless the Purchasing Company from all claims arising out of, and defend all suits for damages in connection with, accidents to its employees, or to the public, or to property caused by or in connection with the work done by the ..... Company in carrying out this order.
- (c) Permits.—It is understood that the ..... Company will comply with all State (Federal) (Municipal) Laws, and secure all necessary permits required thereby at its own expense.
- (d) Insurance.—It is understood and agreed that the ..... Company will cover the work done by it, under this order, with employers' liability (public liability) (fire) (marine) insurance in form, amount, and with a company satisfactory to the Purchasing Company.

- (e) Inspection.—It is understood and agreed that all material shipped (delivered) under this order shall be subject to inspection by ..... at the mill (or other point agreed), reasonable facilities being granted to ..... for such inspection. All material rejected by ..... shall be removed promptly by the ..... Company at its own expense.
- (f) Agent's Clause.—It is understood and agreed that the Purchasing Company, in placing this order, is acting solely as agent for the ..... Company, against whom all charges and claims are to be made by the ..... Company. All invoices are to be sent to the Purchasing Company for approval, and the Purchasing Company will then transmit them to the ..... Company for payment.
- (g) Payment.—All invoices are to be rendered in duplicate (triplicate) and sent to ..... (state address).

Invoices for labor and materials furnished during the preceding month to be made out as of the ..... day of each month. Payment of same, if correct, will be made within ..... days after receipt of invoices, ..... per cent. being retained to insure completion, until the final payment, which will be made within ..... days of acceptance of all work under this order.

## 12. Confirmation.

- (a) Confirming verbal (telephone) order given your Mr....., on ..... (date).
- (b) This order is given in acceptance of your proposal No....., dated....., said proposal and this order to form a contract binding on both parties.

## 13. Execution.

- (a) The Purchasing Company.

By .....  
(title)

- (b) Accepted:

The Selling Company.

By .....  
(title)

ORDER REGISTER

Requisition number	Bid-sheet number	Order number	Date of order	Order given to	For	Date due to be shipped	Follow-up information	
								B/L received

FIG. A.—Register.

REPORT OF TRACER

B/L dated	Routing	Tracer		Reports from tracer			Date received	Goods delivered
		Kind	Date					
								✓
								✓
								✓
								✓

FIG. B.—Tracer.



## 102. Contracts.—

ARTICLES OF AGREEMENT, between .....	
	of the first part
and .....	of the second part
The part.... of the first part, in consideration of .....	
covenant and agree to .....	
The part.... of the second part, in consideration of .....	
covenant and agree .....	
IN WITNESS WHEREOF, the parties hereunto have set	
their hands and seals the .....	day of .....
in the year one thousand nine hundred and .....	
Sealed and delivered in the presence of	

FIG. A.—General blank form of contract.

AGREEMENT made this ..... day of .....  
 in the year one thousand nine hundred and .....  
 BETWEEN .....  
 part.... of the first part and .....  
 part.... of the second part, in manner following: The said part ..  
 of the first part, in consideration of the sum of .....  
 to be fully paid as hereinafter mentioned, hereby agree to sell unto  
 the said part.... of the second part, ALL.....  
 .....

---

AND THE SAID part.... of the second part hereby agree to pur-  
 chase said premises at the said consideration of .....  
 Dollars, and to pay the same as follows: .....  
 ..... Dollars  
 on the execution of this agreement the receipt of which is hereby  
 acknowledged .....

AND THE SAID part.... of the first part, on receiving such pay-  
 ment ..... at  
 the time and in the manner above mentioned shall, at ..... own  
 proper costs and expenses execute, acknowledge and deliver, or cause  
 to be executed, acknowledged and delivered to the said part....  
 of the second part, ..... a good and sufficient deed for the  
 conveying and assuring to ..... them the fee simple  
 of the said premises free from all encumbrance (which deed shall be  
 a full covenant warranty deed).  
 .....  
 .....

FIG. B.—Contract to buy property.

It being understood and agreed that the instruments referred to in within contract, to be executed and delivered, shall conform to the requirements of Chapter (—), Law of (—), relating to Deeds, Bonds and Mortgages, so far as the same is applicable thereto, and which deed shall be delivered on the ..... day of ..... , 191.., at ..... o'clock, ..... M., at .....

AND IT IS UNDERSTOOD that the stipulations aforesaid are to apply to and bind the heirs, executors, administrators and assigns of the respective parties.

IN WITNESS WHEREOF, the parties to these presents have hereunto set their hands and seals the day and year first above written. Sealed and delivered in the presence of

STATE OF ..... }  
County of ..... } ss.

On this ..... day of ..... in the year one thousand nine hundred and ..... before me personally came and appeared ..... to me known and known to me to be ..... the person.. described in and who executed the foregoing instrument and ..... acknowledged to me that ..... he .... executed the same.

FIG. B.—Contract to buy property. (*Concluded.*)



ARTICLES OF AGREEMENT, made this ..... day of  
 ..... nineteen hundred .....  
 between .....  
 part.... of the first part and .....  
 part.... of the second part.

WITNESSETH, as follows: The part... of the first part, in con-  
 sideration of One Dollar paid by the part.... of the second part,  
 the receipt of which by the part... of the first part is hereby ac-  
 knowledged, and also in consideration of the conveyance by the  
 part.... of the second part of the real property hereinafter men-  
 tioned, hereby agree... to grant and convey to the part.... of  
 the second part, at a valuation for the purpose of this contract of  
 .....  
 ALL .....

AND the part.... of the second part, in consideration of One Dollar  
 paid by the part.... of the first part, the receipt of which by the  
 part.... of the second part is hereby acknowledged, and also in  
 consideration of the conveyance by the part.... of the first part of  
 the real property hereinbefore mentioned, agree ... to grant and con-  
 vey to the part.... of the first part, at a consideration for the pur-  
 poses of this contract of ..... Dollars  
 ALL .....

Said premises which are to be conveyed by the part... of the first  
 part are to be conveyed subject to the following encumbrances.....

Said premises which are to be conveyed by the part.... of the  
 second part are to be conveyed subject to the following incumbrances:

The difference between the values of the respective premises, over  
 and above incumbrances, shall be deemed for the purpose of this  
 contract to be ..... Dollars,  
 in favor of the part.... of the ..... part, and the said part...  
 of the ..... part agree ... to pay the same as follows:

Each of the parties to these presents hereby agrees to convey  
 the property above described as sold by that party, free from all  
 incumbrances, except as above specified, and to execute, acknowledge  
 and deliver, or cause to be executed, acknowledged and delivered,

FIG. C.—Contract to exchange property.

to the other party, or to the assigns of the other party (the deed to be drawn in each case at the cost of the vendor), a proper warranty deed containing full covenants, duly executed and acknowledged, to convey and assure to the grantees an absolute fee of said premises.

Said deeds shall be delivered and exchanged on ..... the  
..... day of ..... at ..... o'clock,  
..... M., at the office of .....  
No. .... in the .....

Each of the parties hereto assumes the risk of loss or damages by fire prior to the completion of this contract on the premises owned by them respectively. The rents of the said premises, insurance premiums and interest on mortgage, if any, shall be adjusted, apportioned and allowed up to the day of taking title.

AND IT IS UNDERSTOOD, that the stipulations aforesaid are to apply to and bind the heirs, executors, administrators and assigns of the respective parties.

IN WITNESS WHEREOF, the parties to these presents have hereunto set their hands and seals, the day and year first above written.

Sealed and delivered in the presence of

(Seal)

(Seal)

STATE OF NEW YORK }  
County of .....

On this ..... day of ..... in the  
year one thousand nine hundred and ..... before  
me, the undersigned, personally came and appeared .....  
..... to me personally known and  
known to me to be ..... the individual....  
described in and who executed the foregoing instrument and.....  
..... and acknowledged to me that ..... he .....executed  
the same.

FIG. C.—Contract to exchange property. (Concluded.)

## THIS AGREEMENT, Between

.....  
 as Landlord, and .....  
 as Tenant, WITNESSETH: That the said Landlord LET unto the  
 said Tenant, and said Tenant Hire from the said Landlord

.....  
 for the term of .....  
 from the ..... day of ..... 191.. to be  
 occupied as .....  
 and not otherwise, at the yearly rent of ..... Dollars,  
 payable .....  
 upon the conditions and Covenants following:

First.—That the Tenant.... shall pay the rent ..... as  
 aforesaid, as the same shall fall due.

Second.—That the Tenant.... shall take good care of the House  
 and its fixtures, and suffer no waste; and shall at ..... own  
 cost and expense, make and do all repairs required to the plumbing  
 work and pipes, furnace, range, and fixtures belonging thereto, and  
 shall keep the ..... pipes and the connections with the  
 ..... main, free from ice and other obstructions at  
 own expense. And the tenant .... shall keep the sewer connections  
 free from obstructions to the satisfaction of the municipal and police  
 authorities, and not call upon the party of the first part, for any  
 disbursements or outlay during the hereby granted term; .....  
 ..... and at the end or other expiration of the term  
 shall deliver up the demised premises in good order and condition,  
 damages by the elements excepted.

That the tenant shall pay the ..... water tax imposed on the  
 hereby demised building in each and every year during the hereby  
 granted term.

That no improvements or alterations shall be made in or to the  
 hereby demised building, without the consent of the landlord in  
 writing. All improvements made by the tenant to belong to the  
 landlord, at the expiration of the hereby granted lease.

Third.—That the tenant .... shall further and promptly execute  
 and fulfill all the ordinances of the City Corporation applicable to

FIG. D.—Contract to let.



said premises; and all orders and requirements imposed by the Board of Health and the Police Department for the correction, prevention and abatement of nuisances or other grievances in, upon or connected with said premises during said term, or other grievances at ..... own expense.

Fourth.—That the tenant.... shall not assign this Agreement, or underlet the premises, or any part thereof or make any alterations in the Building or Premises without the Landlord's consent, in writing; or occupy or permit or suffer the same to be occupied for any business or purpose deemed extra-hazardous on account of fire.

Fifth.—That the tenant.... shall in the case of fire, give immediate notice thereof to the Landlord, who shall thereupon cause the damage to be repaired forthwith. But if the premises be so damaged that the Landlord shall decide to re-build, the term shall cease, and the accrued rent be paid up to the time of the fire.

Sixth.—That in case of default in any of the Covenants, the Landlord may resume possession of the premises and re-let the same for the remainder of the term, at the best rent that he can obtain, for account of the Tenant...., who will make good any deficiency.

Seventh.—That the landlord shall have liberty, three months prior to the expiration of the term hereby granted, to put in some conspicuous part of the exterior of said premises, a notice "For Sale," or "To Let," and applicants shall be admitted at reasonable hours of the day to view them until rented.

And ..... or ..... agents shall also be permitted at any time during the term, to visit and examine the premises at any reasonable hour of the day.

The premises being rented at the request of .....  
 ..... as Surety, the latter agrees in consideration of the said letting, that the Tenant.... shall pay the rent, and perform the Agreement on ..... part, above written.  
 IN WITNESS WHEREOF, the parties to this agreement, have hereunto interchangeably set their hands and seals this ..... day of ..... 191..

Sealed and delivered in presence of

FIG. D.—Contract to let. (*Concluded.*)

THIS AGREEMENT, made the ..... day of .....  
in the year one thousand nine hundred and ..... by and between

.....  
party of the first part (hereinafter designated the Contractor..) and

.....  
party of the second part (hereinafter designated the Owner..),

WITNESSETH that the Contractor.., in consideration of the agree-  
ments herein made by the Owner.., agree with the Owner.. as  
follows:

Section 1.—The Contractor.. shall and will provide all the materials  
and perform all the work for the .....

.....  
as shown on the drawings and described in the specifications pre-  
pared by ..... Architect, which  
drawings and specifications are identified by the signatures of the  
parties hereto, and become hereby a part of this contract.

Section 2.—It is understood and agreed by and between the parties  
hereto that the work included in this contract is to be done under  
the direction of the said Architect, and that his decision as to the  
true construction and meaning of the drawings and specifications  
shall be final. It is also understood and agreed by and between the  
parties hereto that such additional drawings and explanations as  
may be necessary to detail and illustrate the work to be done are to  
be furnished by said Architect, and they agree to conform to and abide  
by the same so far as they may be consistent with the purpose and  
intent of the original drawings and specifications referred to in  
Section 1.

It is further understood and agreed by the parties hereto that  
any and all drawings and specifications prepared for the purposes  
of this contract by the said Architect are and remain his property,  
and that all charges for the use of the same, and for the services  
of said Architect, are to be paid by the said Owner...

Section 3.—No alterations shall be made in the work except upon  
written order of the Architect; the amount to be paid by the Owner..  
or allowed by the Contractor.. by virtue of such alteration to be stated  
in said order. Should the Owner.. and Contractor.. not agree as to  
amount to be paid or allowed, the work shall go on under the order  
required above, and in case of failure to agree, the determination  
of said amount shall be referred to arbitration as provided for in  
Section 12 of this contract.

FIG. E.—Building agreement—lump sum.

Section 4.—The Contractor.. shall provide sufficient, safe and proper facilities at all times for the inspection of the work by the Architect of his authorized representatives, shall, within twenty-four hours after receiving written notice from the Architect to that effect, proceed to remove from the grounds or buildings all materials condemned by him, whether worked or unworked, and to take down all portions of the work which the Architect shall by like written notice condemn as unsound or improper, or as in any way failing to conform to the drawings and specifications and shall make good all work damaged or destroyed thereby.

Section 5.—Should the Contractor.. at any time refuse or neglect to supply a sufficiency of properly skilled workmen, or of materials of the proper quality, or fail in any respect to prosecute the work with promptness and diligence, or fail in the performance of any of the agreements herein contained, such refusal, neglect or failure being certified by the Architect, the Owner.. shall be at liberty, after three day's written notice to the Contractor.., to provide any such labor or materials, and to deduct the cost thereof from any money then due or thereafter to become due to the Contractor.. under this contract; and if the Architect shall certify that such refusal, neglect or failure is sufficient ground for such action, the Owner.. shall also be at liberty to terminate the employment of the Contractor.. for the said work and to enter upon the premises and take possession, for the purpose of completing the work included under this contract, of all materials, tools and appliances thereon, and to employ any other person or persons to finish the work, and to provide the materials therefor; and in case of such discontinuance of the employment of the Contractor.., ..... shall not be entitled to receive any further payment under this contract until the said work shall be wholly finished, at which time, if the unpaid balance of the amount to be paid under this contract shall exceed the expense incurred by the Owner.. in finishing the work, such excess shall be paid by the Owner.., to the Contractor..; but if such expense shall exceed such unpaid balance, the Contractor.. shall pay the difference to the Owner.. The expense incurred by the Owner.. as herein provided, either for furnishing materials or for finishing the work, and any damage incurred through such default, shall be audited and certified by the Architect, whose certificate thereof shall be conclusive upon the parties.

Section 6.—The Contractor.. shall complete the several portions and the whole of the work comprehended in this Agreement by

FIG. E.—Building agreement—lump sum. (*Continued.*)



and at any time or times hereinafter stated, to wit: .....

Section 7.—Should the Contractor.. be delayed in the prosecution or completion of the work by the act, neglect or default of the Owner.., of the Architect, or any other contractor employed by the Owner.. upon the work, or by any damage caused by fire or other casualty for which the Contractor.. not responsible, or by combined action of workmen in no wise caused by or resulting from default or collusion on the part of the Contractor.., then the time herein fixed for the completion of the work shall be extended for a period equivalent to the time lost by reason of any or all the causes aforesaid, which extended period shall be determined and fixed by the Architect; but no allowance shall be made unless a claim therefor is presented in writing to the Architect within forty-eight hours of the occurrence of such delay:

Section 8.—The Owner.. agree.. to provide all labor and materials essential to the conduct of this work not included in this contract in such manner as not to delay its progress and in the event of failure so to do, thereby causing loss to the Contractor.., agree.. that ..... will reimburse the Contractor.. for such loss: and the Contractor.. agree.. that if ..... shall delay the progress of the work so as to cause loss for which the Owner.. shall become liable, then ..... shall reimburse the Owner.. for such loss. Should the Owner.. and Contractor.. fail to agree as to the amount of loss comprehended in this Section, the determination of the amount shall be referred to arbitration as provided in Section 12 of this contract.

Section 9.—It is hereby mutually agreed between the parties hereto that the sum to be paid by the Owner.. to the Contractor.. for said work and materials shall be ..... subject to additions and deductions as hereinbefore provided, and that such sum shall be paid by the Owner.. to the Contractor.., in current funds, and only upon certificates of the Architect, as follows:

.....  
The final payment shall be made within ..... days after the completion of the work included in this contract, and all payments shall be due when certificates for the same are issued. If at any time there shall be evidence of any lien.. or claim.. for which, if established, the Owner.. of the said premises might become liable, and which is chargeable to the Contractor.., the Owner.. shall have

the right to retain out of any payment then due or thereafter to become due an amount sufficient to completely indemnify ..... against such lien.. or claim.. Should there prove to be any such claim.. after all payments are made, the Contractor.. shall refund to the Owner.. all moneys that the latter may be compelled to pay in discharging any lien.. on said premises made obligatory in consequence of the Contractor.. default.

Section 10.—It is further mutually agreed between the parties hereto that no certificate given or payment made under this contract, except the final certificate or final payment, shall be conclusive evidence of the performance of this contract, either wholly or in part, and that no payment shall be construed to be an acceptance of defective work or improper materials.

Section 11.—The Owner.. shall during the progress of the work maintain insurance on the same against loss or damage by fire,....

..... the policies to cover all work incorporated in the building, and all materials for the same in or about the premises, and to be made payable to the parties hereto, as their interest may appear.

Section 12.—In case the Owner.. and Contractor.. fail to agree in relation to matters of payment, allowance or loss referred to in Sections 3 or 8 of this contract, or should either of them dissent from the decision of the Architect referred to in Section 7 of this contract, which dissent shall have been filed in writing with the Architect within ten days of the announcement of such decision, then the matter shall be referred to a Board of Arbitration to consist of one person selected by the Owner.., and one person selected by the Contractor.., these two to select a third. The decision of any two of this Board shall be final and binding on both parties hereto. Each party hereto shall pay one-half of the expense of such reference.

..... The said parties for themselves, their heirs, successors, executors, administrators and assigns, do hereby agree to the full performance of the covenants herein contained.

IN WITNESS WHEREOF, the parties to these presents have hereunto set their hands and seals, the day and year first above written.

In presence of .....  
In presence of .....

FIG. E.—Building agreement—lump sum. (Concluded.)

THIS AGREEMENT, made this ..... day of .....  
191.., by and between ..... Company, a  
corporation organized and existing under the laws of the State of  
..... party of the first part, hereinafter called the  
"Company," and the ..... Company, a corporation organized  
and existing under the laws of the State of ....., party of the  
second part, hereinafter called the "Contractor,"

WHEREAS, the Company desires to have constructed .....  
.....  
in accordance with plans and specifications prepared by the engineer  
of ....., identified by the signatures  
of the parties hereto and made a part hereof and

WHEREAS, the Contractor is desirous of performing this work  
under the terms and conditions hereinafter outlined,

NOW, THEREFOR, the parties to this agreement, each in con-  
sideration of the covenants and agreements on the part of the other  
herein contained, do hereby covenant and agree as follows:

1.—The Contractor shall act as agent for the Company in exe-  
cuting the work as outlined herein, in accordance with plans and speci-  
fications above referred to.

2.—The Company will .....  
It is further understood and agreed that the work to be done by the  
Company will be done without interference with the work herein  
agreed to be done by the Contractor.

3.—In consideration of the faithful performance of the covenants  
and agreements made by the Contractor, the Company hereby  
covenants and agrees to pay, or cause to be paid to the Contractor,  
an amount equal to the "cost of the work," as hereinafter defined,  
plus a fee of ..... Dollars,  
(\$.....), subject to the conditions set forth in Article  
No. 8.

4.—It is understood and agreed by the parties hereto that the  
term "cost of the work" shall include all expenses of whatsoever  
nature incurred by the Contractor in connection with this work,  
excepting cost of maintenance of Contractor's main office in New  
York. The said costs would include:

(a) All labor and materials, both for temporary and permanent  
work, including camp and other temporary buildings.

FIG. 7.—Building agreement—cost plus a fee.



(b) The cost of transportation of all plant (including that furnished by the Contractor) to and from the site of the work, the said costs to include freight, trucking and the loading and unloading of plant at the Contractor's Yard and at the site of the work.

(c) All necessary repairs to plant while on the work.

(d) The transportation and traveling expenses of all men to and from the site of the work, including the traveling expenses of officers or engineers of the Contractor when their services are required on the work.

(e) All expenses of superintendents, including time-keepers and clerks, but not including any charge for services rendered by the officers or engineers of the Contractor from its New York office.

(f) The cost of the installation, maintenance and dismantling of plant, pipe lines, etc., at the site of the work.

(g) The cost of all supplies including any equipment not furnished by the Contractor as hereinafter mentioned, wire and Manila rope, blocks and tackle, hand tools, piping, steam and air hose, fuel, oil, waste, caisson shafts, ladders, etc., any salvage on same at the completion of the work to be credited to the cost of the work.

(h) The cost of running the camp in excess of receipts from same.

(i) The expenses of the local office, on the work, of the Contractor, including telegrams, telephone, express, postage, etc.

(j) The cost of the necessary liability insurance to protect both the Company and the Contractor from loss by reason of damages to, or injuries sustained by the public or workmen while engaged on the work, and costs of all damages in excess of liability insurance.

(k) The cost of any legal expenses and the rental of any property necessary for the prosecution of the work.

5.—The Contractor will furnish without charge other than the fee hereinbefore provided for, its business system, its engineering skill and experience, its patent methods and patent rights in its appliances, its skilled organization, and generally, its ability to equip the work with efficient plant, and to organize the job with men experienced in this class of work, and to construct, expeditiously and successfully, work of this nature. The Contractor will also furnish without additional charge, the heavier items of plant required in connection with the work—such plant consisting of air compressors, air locks, receiver and cooler, derricks, hoisting engines, concrete mixer, caisson buckets and boilers (State specific items).

FIG. 7.—Building agreement—cost plus a fee. (Continued.)

6.—It is understood and agreed that the Contractor shall purchase, for the account of the Company, all supplies and materials, etc., required in connection with the work, except such as the Company may wish to purchase itself, shall duly approve bills for same for payment, and shall then forward them to the Company for payment, and the Company agrees that it will make payment for such bills direct to the individuals or firms from which the materials or supplies were purchased. Expenditures made by the Contractor on account of the work shall be reimbursed as follows: On the first (1st) and fifteenth (15th) days of each month, the Contractor shall furnish to the Company a statement of the expenditures made by it during the preceding two weeks' period on account of the work, rendering proper vouchers therefor, and the Company agrees that within five (5) days of the receipt of such statement from the Contractor, it will pay the Contractor the amount of such statements. The Company further agrees that between the first (1st) and fifth (5th) days of each month it will pay or cause to be paid to the Contractor on account of the fee herein agreed upon ..... per cent. of the fee mentioned in Article No. 3 (until ..... per cent. of the fee has been paid to the Contractor), for the work done by it during the preceding month, and will pay or cause to be paid within thirty (30) days after the completion of the work, the rest of the fee, if any, due to the Contractor.

7.—The Contractor shall afford sufficient facilities to the authorized representatives of the Company for the inspection of said work and materials.

8.—The Contractor guarantees to the extent of this fee, that the cost of the work, including this fee, shall not exceed the sum of \$....., but the parties hereto agree in the event of the cost, including the fee to the Contractor, being less than \$....., that any sum which may be saved on such cost, under the said sum of \$....., shall be divided equally between the parties hereto; and the parties hereto further agree in the event of the cost, including the fee of \$..... to the Contractor, being over \$....., the Contractor shall pay one-half of said cost in excess of such sum of \$....., until the amount which it may be called upon to pay shall equal \$..... when further payments on the part of the Contractor, on account of such extra cost, shall cease. Payments of extra fee to the Contractor by the Company, or rebate in fee by the Contractor to the Company, as provided in this clause, to be made at the time of final payment referred to in Article No. 6.

FIG. 7.—Building agreement—cost plus a fee. (Continued.)

9.—Should the Contractor at any time during the progress of the work refuse or neglect to supply a sufficiency of materials of proper quality, or of competent workmen, or cause any unreasonable neglect or suspension of work, or fail or refuse to comply with any of the articles of this agreement, the Company shall be at liberty, after giving ten (10) days' written notice to the Contractor, to terminate this contract, and in that event, the Company shall pay to the Contractor the cost of the work as defined in Paragraph No. 4, plus such portion of the fee mentioned in Article No. 3 as may be due, as provided in Article No. 6, up to the date on which the ten (10) days' notice, heretofore described, expires. In case the contract is terminated before completion, Article No. 8 will be disregarded by both parties in adjusting final payment. Upon such payment being made, by the Company to the Contractor, this contract shall thereupon be terminated.

10.—The Contractor agrees to take out and maintain at all times during the course of said work liability insurance in amounts to be approved by the Company, to protect said Company and Contractor from loss by reason of damage to, or injuries sustained by, the public or workmen while engaged on the work.

11.—The conditions of this contract shall be binding on the successors and assigns of the parties hereto, but no assignment hereof shall be made nor sub-contract let by the Contractor without the written consent of the Company.

12.—The Company shall furnish the Contractor free of charge such permits as may be required for the prosecution of the work.

IN WITNESS WHEREOF, the said parties have hereunto set their hands and seals as of the day and year first above written.

.....  
(Company)

Witness:

By .....

.....  
(Contractor)

Witness:

By .....

FIG. 7.—Building agreement—cost plus a fee. (*Concluded.*)



THIS AGREEMENT, made this ..... day of  
 ....., 191..., by and between The .....  
 Company, a corporation organized and existing under the laws of  
 the State of ....., party of the first part, herein-  
 after called the "Company," and The .....  
 Company, a corporation organized and existing under the laws of  
 the State of ....., party of the second part,  
 hereinafter called the "Contractor,"

# WITNESSETH

WHEREAS, the Company desires to have constructed .....  
 .....  
 in accordance with plans and specifications prepared by the .....  
 ..... Engineer of the .....  
 identified by the signatures of the parties hereto and made a part  
 hereof, and

WHEREAS, the Contractor is desirous of performing this work  
 under the terms and conditions hereinafter outlined.

NOW, THEREFORE, the parties to this agreement, each in con-  
 sideration of the covenants and agreements on the part of the other  
 herein contained, do hereby covenant and agree as follows:

1.—The Contractor shall act as agent for the Company in exe-  
 cuting the work as outlined herein, in accordance with plans and  
 specifications above referred to.

2.—The Company will .....

It is further understood and agreed that the said work shall be done  
 by the Company without interference with the work herein agreed  
 to be done by the Contractor.

3.—In consideration of the faithful performance of the covenants  
 and agreements made by the Contractor, the Company hereby  
 covenants and agrees to pay, or cause to be paid to the Contractor,  
 an amount equal to the "cost of the work" as hereinafter defined,  
 plus a commission of ..... per cent. (..... %) of  
 said cost as compensation for the services of the Contractor.

FIG. G.—Building agreement—percentage basis.

4.—It is understood and agreed by the parties hereto that the term "cost of the work" shall include all expenses of whatsoever nature incurred by the Contractor in connection with this work, excepting cost of maintenance of Contractor's executive main office in ..... The said costs would include:

(a) All labor and materials, both for temporary and permanent work, including camp and other temporary buildings.

(b) The cost of transportation of all plant (including that furnished by Contractor) to and from the site of the work, the said costs to include freight, trucking and the loading and unloading of plant at the Contractor's yard and at the site of the work.

(c) All necessary repairs to plant while on the work.

(d) The transportation and traveling expenses of all men to and from the site of the work, including the traveling expenses of officers or engineers of the Contractor when their services are required on the work.

(e) All expenses of superintendents, including timekeepers and clerks, but not including any charge for services rendered by the officers or engineers of the Contractor from its main executive office.

(f) The cost of the installation, maintenance and dismantling of plant, pipe lines, etc., at the site of the work.

(g) The cost of all supplies, including any equipment not furnished by the Contractor as hereinafter mentioned, wire and Manila rope, blocks and tackle, hand tools, piping, steam and air hose, fuel, oil, waste, caisson shafts, ladders, etc., any salvage on same at the completion of the work to be credited to the cost of the work.

(h) The cost of running the camp in excess of receipts from same.

(i) The expenses of the local office on the work, of the Contractor, including telegrams, telephones, express, postage, etc.

(j) The cost of the necessary liability insurance to protect both the Company and the Contractor from loss by reason of damages to, or injuries sustained by, the public or workmen while engaged on the work, and costs of all damages in excess of liability insurance.

(k) The cost of any legal expenses and the rental of any property necessary for the prosecution of the work.

FIG. G.—Building agreement—percentage basis. (*Continued.*)

5.—The Contractor will furnish without charge, other than the commission or fee herein provided for, its business system, its engineering skill and experience, its patent methods and patent rights in its appliances, its skilled organization, and generally, its ability to equip the work with efficient plant, and to organize the job with men experienced in this class of work and to construct, expeditiously and successfully, work of this nature. The Contractor will also furnish without additional charge the heavier items of plant required in connection with the work, such plant consisting of air compressors, air locks, receiver and cooler, derricks, hoisting engines, concrete mixers, caisson buckets and boilers (State specific items).

6.—It is understood and agreed that the Contractor shall purchase, on account of the Company, all supplies and materials, etc., required in connection with the work, except such as the Company may wish to purchase itself, shall duly approve bills for same for payment, and shall then forward them to the Company for payment, and the Company agrees that it will make payment for such bills direct to the individuals or firms from which the materials or supplies are purchased. Expenditures made by the Contractor on account of the work shall be reimbursed as follows: On the first (1st) and fifteenth (15th) days of each month, the Contractor shall furnish the Company a statement of the expenditures made by it during the preceding two weeks' period on account of the work, rendering proper vouchers therefor, and the Company agrees that within five (5) days of the receipt of such statement from the Contractor, it will pay the Contractor the amount of such statements. The Company further agrees that between the first (1st) and fifth (5th) days of each month it will pay or cause to be paid to the Contractor, on account of the commission or fee herein agreed upon, one-half of the amount due the Contractor, as commission or fee for work done by it during the preceding month, and will pay or cause to be paid within thirty (30) days after the completion of the work, the balance of the fee or commission due to the Contractor.

7.—The Contractor shall afford sufficient facilities to the authorized representatives of the Company for the inspection of said work and materials.



8.—Should the Contractor at any time during the progress of the work refuse or neglect to supply a sufficiency of materials of proper quality, or of competent workmen, or cause any unreasonable neglect or suspension of work, or fail or refuse to comply with any of the articles of this agreement, the Company shall be at liberty, after giving ten (10) days' written notice to the Contractor, to terminate this contract, and in that event, the Company shall pay to the Contractor the cost of the work as defined in Par. 4, plus its commission thereon. Upon such payments being made by the Company to the Contractor, this contract shall thereupon be terminated.

9.—The Contractor agrees to take out and maintain at all times during the course of said work liability insurance in amounts to be approved by the Company, to protect said Company and Contractor from loss by reason of damage to, or injuries sustained by, the public, or workmen while engaged on the work.

10.—The conditions of this contract shall be binding on the successors and assigns of the parties hereto, but no assignment hereof shall be made nor sub-contract let by the Contractor without the written consent of the Company.

11.—The Company shall furnish the Contractor free of charge such permits as may be required for the prosecution of the work.

IN WITNESS WHEREOF, the said parties have hereunto set their hands and seals as of the day and year first above written.

THE.....(Seal)

Witness:

By .....  
(Company)

THE.....(Seal)

Witness:

By .....  
(Contractor)

FIG. G.—Building agreement—percentage basis. (Concluded.)

KNOW ALL MEN BY THESE PRESENTS,

That .....  
of the first part, for and in consideration of the sum of .....  
..... lawful money of the United States,  
to ..... in hand paid, at or before the ensembling  
and delivery of these presents by .....  
of the second part, the receipt whereof is hereby acknowledged, has  
bargained and sold, and by these presents do grant and convey, unto  
the said part.... of the second part, ..... executors,  
administrators and assigns, .....

TO HAVE AND TO HOLD the same unto the said part.... of  
the second part, ..... executors, ad-  
ministrators and assigns, forever.

And ..... do ..... for ..... heirs, executors and  
administrators covenant and agree to and with the said part.... of  
the second part, to warrant and defend the sale of the said.....  
..... hereby sold unto the said part.... of  
the second part, ..... executors, administrators and assigns  
against all and every person and persons whomsoever,

IN WITNESS WHEREOF, ..... have hereunto set  
..... hand and seal the ..... day of  
..... in the year one thousand nine hun-  
dred and .....

Signed, sealed and delivered in the presence of

Schedule of Foregoing Bill of Sale

STATE OF..... }  
County of..... } ss.

On this ..... day of ..... in the  
year one thousand nine hundred and ..... before  
me personally came and appeared .....  
..... to me known and known to me to be .....  
..... the person.. described in, and who executed the  
foregoing instrument, and ..... acknowledged to  
me that .... he.... executed the same.

FIG. H.—Bill of sale.

TO ALL TO WHOM THESE PRESENTS SHALL COME  
 or may concern, greeting; know ye, That.....  
 .....  
 for and in consideration of the sum of.....  
 ..... Dollars  
 lawful money of the United States of America, to ..... in hand  
 paid by .....  
 the receipt whereof is hereby acknowledged, have remised, released  
 and forever discharged and by these Presents do for.....  
 heirs, executors and administrators, remise, release and forever dis-  
 charge the said.....  
 heirs, executors and administrators, of all and from all, and all manner  
 of action and actions, cause and causes of actions, suits, debts, dues,  
 sums of money, accounts, reckonings, bonds, bills, specialties, cove-  
 nants, contracts, controversies, agreements, promises, variances,  
 trespasses, damages, judgments, extents, executions, claims and  
 demands whatsoever in law or in equity, which against.....  
 ..... ever had, nor ha.... or which  
 .....  
 heirs, executors or administrators, hereafter can, shall or may have  
 for, upon or by reason of any matter, cause or thing whatsoever  
 from the beginning of the world to the day of the date of these presents.  
 IN WITNESS WHEREOF, ..... have hereunto set  
 ..... hand and seal the ..... day of .....  
 in the year of our Lord one thousand nine hundred and.....

Sealed and delivered in the presence of

STATE OF..... }  
 County of ..... } ss.

On this ..... day of ..... in the  
 year one thousand nine hundred and ..... before me  
 personally came and appeared .....  
 to me known and known to me to be ..... the person..  
 described in and who executed the foregoing instrument, and .....  
 ..... acknowledged to me that ..... he executed the same.

FIG. I.—General release.



KNOW ALL MEN BY THESE PRESENTS, That we, THE.....  
 ..... COMPANY, a corporation organized under the laws of the State of ....., with its principal office at ....., hereinafter called the principal and .....

(Bonding Co.)

COMPANY, a corporation organized under the laws of the State of ....., and whose principal office is located in ....., hereinafter called the surety, its successors and assigns, are held and firmly bound unto ..... Company, of ....., hereinafter called the obligee, in the full and just sum of ..... (\$.....) DOLLARS, lawful money of the United States, to the payment of which sum, well and truly to be made, the said principal binds itself, its successors and assigns, and the said surety binds itself, its successors and assigns, jointly and severally, firmly by these presents.

Signed, sealed and delivered this ..... day of ..... 191..

WHEREAS, said principal has entered into a certain contract with the obligee, to furnish the labor and material required for performing the .....

(work to be performed, etc.)

HOW, THEREFORE, the CONDITION OF THE FOREGOING OBLIGATION is such, that if the said principal shall well and truly indemnify and save harmless the said obligee from any pecuniary loss resulting from the breach of any of the terms, covenants and conditions of the said contract on the part of said principal to be performed; then this obligation shall be void; otherwise to remain in full force and effect in law.

IN TESTIMONY WHEREOF, the said principal and the said surety have caused this instrument of writing to be signed by their respective officers and their corporate seals to be hereunto affixed, the day and year first above written.

.....  
 (Principal)

ATTEST:

.....  
 (Surety)

ATTEST:

FIG. J.—Form of bond.

## A. B. C. COMPANY

## SHIP BROKERS, N. Y.

This Charter Party, made and concluded upon in the City of ..... the ..... day of ....., 191.., between ....., Managing Owner, of the ..... of ..... of the burthen of ..... Tons, or thereabouts, register measurement, now at ..... City, of the first part and ..... of ....., of the second part,

WITNESSETH, that the said party of the first part agrees in the freighting and chartering of the whole of the said vessel (with the exception of the cabin and necessary room for the crew, and storage of provisions, sails and cables) unto said party of the second part, for a voyage from ..... to ....., on the terms following. The said vessel shall be tight, staunch, strong, and every way fitting for such a voyage, and receive on board during the aforesaid voyage, the merchandise hereinafter mentioned. The said party of the second part doth engage to provide and furnish to the said vessel both under and on deck, a full and complete cargo of .....

There are .....  
(description of cargo)

..... and to pay to said party of the first part, or agent, for the use of said vessel during the voyage aforesaid a lump sum of ..... Dollars (\$.....), payable in United States gold or its equivalent free of discount or commission upon proper discharge of cargo.

Cargo to be loaded and stowed aboard vessel at risk and expenses of Charterers.

Vessel to be free of Wharfage while loading.

It is agreed that the lay days for loading and discharging shall be as follows (if not sooner dispatched), commencing from the time the vessel is ready to receive or discharge cargo. For loading .....

FIG. K.—Charter of vessel.

..... weather working days, Sundays and holidays excepted.

For discharging, cargo to be received as fast as Master can deliver it in suitable hours and weather.

And that for each and every day's detention by default of said party of the second part, or agents, \$..... U. S. gold per day, day by day, shall be paid by the said party of the second part or agent, to the said party of the first part, or agent. The cargo or cargoes to be loaded and stowed as above described and delivered according to the custom of the port in water lighterage, if any, at risk and expense of cargo.

Vessel now at ..... City loading cargo for ....., after discharge of which she is to proceed to ..... to enter upon this Charter.

Vessel to move to such loading and discharging berth as charterers may direct where she can always lie safely afloat; charterers having the privilege of moving her thereafter by paying towages.

A commission of ..... per cent. on the gross amount of this charter is due from the vessel to the A. B. C. Company, upon the signing hereof, ship lost or not lost, Charter cancelled or uncanceled.

To the true and faithful performance of all and every of the foregoing agreement, dangers of the Seas, Fires and Navigation, of every nature and kind always excepted, we, the said parties, do hereby bind ourselves, our heirs, executors, administrators and assigns, and also the said vessels, freight, tackle and appurtenances and the merchandise to be laden on board, each to the other in the penal sum of estimated amount of this charter.

IN WITNESS WHEREOF, we hereunto set our hands the day and year first above written.

Signed in the presence of:

(Sgd.)..... Managing Owner

(Sgd.).....

FIG. K.—Charter of vessel. (Concluded.)







Name .....	(Dealer? (Manufacturer?)	MATERIAL
Address .....		
Catalogue No .....	Page .....	
Name .....	(Dealer? (Manufacturer?)	
Address .....		
Catalogue No .....	Page .....	
Name .....	(Dealer? (Manufacturer?)	
Address .....		
Catalogue No .....	Page .....	
Name .....	(Dealer? (Manufacturer?)	
Address .....		MATERIAL
Catalogue No .....	Page .....	
Name .....	(Dealer? (Manufacturer?)	
Address .....		
Catalogue No .....	Page .....	
Name .....	(Dealer? (Manufacturer?)	
Address .....		
Catalogue No .....	Page .....	
Name .....	(Dealer? (Manufacturer?)	
Address .....		
Catalogue No .....	Page .....	MATERIAL

FIG. D.—Address index.



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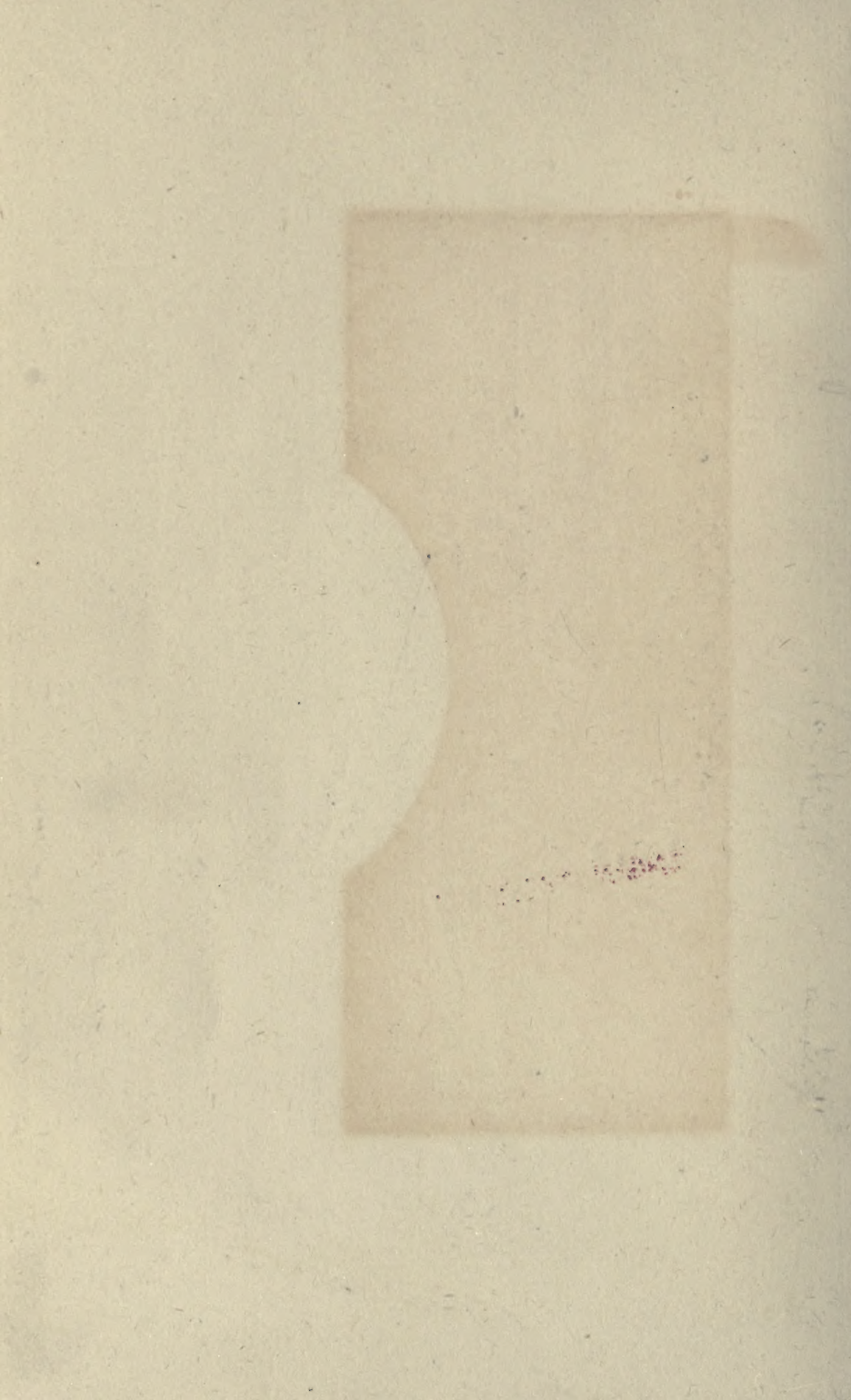












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